VETERANS' ADMINISTRATION LOAN GUARANTY PROGRAM FOR FISCAL YEAR 1986

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

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VETERANS' ADMINISTRATION LOAN GUARANTY PROGRAM FOR FISCAL YEAR 1986

TUESDAY, MARCH 5, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 340, Cannon House Office Building, Hon. Richard Shelby (chairman of the subcommittee) presiding.

Present: Representatives Shelby, Applegate, Mollohan, Smith of New Jersey, Sundquist, Bilirakis, and Rowland of Connecticut.

OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. SHELBY. The subcommittee will come to order.

I think it is most appropriate that the subcommittee's first hearing this year focuses on the Veterans' Administration Loan Guaranty Program and the proposals pending in the fiscal year 1986 budget which would affect it. Our first hearing last year also concerned a Grace Commission quick fix budgetary proposal which, although would have netted revenues initially, would have depleted all of the VA's assets and caused larger deficits in the outyears.

Frankly, I find it disturbing that the housing proposals contained in both this year's and last year's budgets appear to be directed only toward a single year's budget outlay, rather than toward any true reduction in budget deficits with long-range effects.

The proposal to increase the loan origination fee from 1 percent to 5 percent would result in veterans being charged an average amount of $3,000 for the privilege of using the program. Spokesmen for veterans' groups state that this would negate the beneficial aspects of the no-down-payment feature of the program and could effectively destroy it. In essence, it could be considered as a down payment requirement without giving the veteran the benefit of reducing the principal on the mortgage. In other words, this is a selective tax burden on home buying veterans, one which is not being imposed on the general population.

It is my further understanding that this is an OMB initiative rather than one proposed by the Veterans' Administration itself, and its ultimate effect is difficult to properly evaluate at this time. When questioned about this proposal and its potential adverse impact at a full committee hearing on February 20, 1985, VA Administrator Harry Walters characterized his endorsement of this proposal as reluctant.

He further stated—and I quote:

> It seems to me we ought to be very careful and cautious about what impact that fee rise will have on a veteran being able to start his new life. While the revolving fund is plainly in need of assistance, I don't want to throw the baby out with the bath water.
>
> We have, all the way from the mortgage bankers, who say they won't make one more loan, to my own people, who say the program might be reduced as high as 50 percent, to people who say it won't have any impact at all. I don't know the answer to that. I just subscribe to the fact that there is a possibility here that an old-time, very resourceful veteran's benefit might be in danger.

I believe that's an understatement.

Additionally, a recent memo sent to the committee by the Congressional Budget Office estimates that the enactment of a 5 percent fee would depress new loan originations by an estimated 20 percent or more, and result in increased defaults due to the increased timespan necessary to build up equity, since lenders would be guaranteeing a loan of 105 percent rather than 100 percent.

The Congressional Budget Office additionally states that the average default cost for guaranteed loans would rise by 5 percent because the fee would be financed as part of the mortgage principal; subsequently, this would result in higher discounts on the sale of vendee loans.

According to the Congressional Budget Office, the impact of all of these changes could be fund outlays in 1990 that are actually higher than would be expected under current law.

I look forward to hearing from all of our witnesses this morning. I do want to make one point very clear, however. When I schedule a hearing—for the benefit of the committee members and the staff—I expect the people who wish to testify to adhere to the committee policy of submitting testimony 48 hours in advance. I think this is only fair. This is so that I and other members of the subcommittee and staff have the opportunity to review the statements and prepare questions. As you know, we try to be as accommodating as possible to all of you. I find the delivery of testimony last night after working hours unprofessional and we won't tolerate it in the future. It is burdensome in the committee and it just doesn't help anybody.

Our first witness this morning is Bob O'Toole, Director of the VA Loan Guaranty Service. Bob, it is good to see you again. Would you please come on up, introduce those who are accompanying you and proceed with your statement.

Before you get started, I want to recognize the gentleman from New Jersey, Mr. Smith, the ranking minority member.

OPENING STATEMENT OF HON. CHRISTOPHER H. SMITH

Mr. CHRISTOPHER SMITH. Thank you, Mr. Chairman.

I would like to extend a warm welcome to our witnesses and to thank them for taking the time this morning to comment on the fiscal year 1986 VA budget for housing proposals. I am looking forward to the testimony of the VA and Mr. O'Toole, both as to where the home loan program stands today and where it may go in the future.

I think everyone in this room is aware, Mr. Chairman, as to how much this program has meant to the veteran community over the

past 40 years. It has enabled over 11 million veterans to own their own homes. Just last year, 280,000 veterans purchased homes with VA guarantees, including 53,000 active duty personnel.

Over the course of this program it has consistently been the intent of Congress to provide veterans assistance in acquiring and retaining homes, in part as payment for services rendered to a grateful nation. Consequently, Mr. Chairman, any proposed changes in the delivery of these promised benefits must be scrutinized most carefully. As ranking minority member of this subcommittee, I am deeply concerned that the administration's proposed 5 percent user fee will amount to the virtual elimination of this important program.

I question the wisdom, Mr. Chairman, of this change. I think we need to look into ways of correcting the shortfall in the loan guarantee revolving fund, but the 5 percent user fee proposal is not the way to make up this shortfall. Its ultimate effect will be to preclude veterans from acquiring homes.

Mr. Chairman, I look forward to the comments of the witnesses and to the questions they will render to us.

Mr. SHELBY. Mr. Bilirakis.

OPENING STATEMENT OF HON. MICHAEL BILIRAKIS

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Since its inceptions some 40-years ago, the VA Home Loan Program has been one of the most basic and important benefits this country extends to its veterans. It is one of the few VA programs of which all veterans can take advantage and it provides those who put civilian life on hold to serve their country the opportunity to achive the Amercian dream of homeownership.

The question we must ask ourselves as we consider the administration's fiscal year 1986 budget proposals is whether the proposed changes would alter the intended scope and purpose of the program. I know the testimony we will hear today will help us make that determination. In addition to today's testimony, however, I am looking forward to the testimony this subcommittee will receive later this month when it holds a hearing in my district on March 30. I think it is valuable, and indeed essential, to hear from the grassroots veterans on changes that would affect their benefits and I applaud Chairman Shelby for his interst in gathering the views of the veteran communty both within and outside the Washington area.

Mr. SHELBY. Thank you, Mr. Bilirakis?

Do any other members of the subcommittee have an opening statement?

Please proceed, Bob.

STATEMENT OF ROBERT M. O'TOOLE, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION, ACCOMPANIED BY THOMAS W. MAHER, ASSISTANT DIRECTOR, PROPERTY MANAGEMENT; RAYMOND BRODIE, ASSISTANT DIRECTOR, LOAN MANAGEMENT; AND JAMES P. KANE, ASSISTANT GENERAL COUNSEL

Mr. O'TOOLE. Mr. Chairman and members of the subcommittee: It is a pleasure to appear before you this morning to discuss the operation of the Veterans' Administration's housing program. I have with me today Tom Maher, the Assistant Director for Property Management, Ray Brodie, Assistant Director for Loan Management, and Jim Kane, Assistant General Counsel.

A period of economic stability has permitted the VA to keep the interest rate on guaranteed home loans within the 12½ percent to 14 percent range through all of 1984. This is up slightly from the 1983 range of 11½ percent to 13½ percent and down from the 1981–82 levels. The current rate of 12½ percent has been in effect since November 21, 1984.

One important change in the Loan Guaranty Program in 1984 was the enactment last year of Public Law 98–369, setting forth guidelines under which the VA would continue to acquire properties securing VA guaranteed loans when it was in the Government's best interest to do so. Essentially, the legislation requires VA to examine the net value of the security property as a potential asset. The legislation has reduced the number of properties conveyed to the VA and the expenses associated with management and resale. Field stations are processing foreclosures in conformance with the new formulas at this time.

Mr. Chairman, we are continuing to experience a large number of GI loan defaults. During fiscal year 1984 new defaults averaged 13,000 per month, compared with 13,500 in fiscal year 1983. Defaults reported appear to be remaining stable at relatively high levels.

As a result of the continued high level of defaults reported, there were 104,794 defaults pending as of December 31, 1984, an increase of 5.7 percent over the number pending in December 1983. This, in turn, resulted in an increased number of foreclosures and claims. We paid 20,189 claims in fiscal year 1983. This increased 16 percent to 23,355 claims paid in fiscal year 1984.

Hopefully, a continuing recovery in the economy will translate into a decrease in defaults reported, foreclosures, and claims paid in the near future.

Although we have seen continuing high levels of foreclosures completed during the past 2 years, we have been able to make encouraging progress with our property sales results during 1984 and expect to accelerate sales further during 1985 to reduce our inventory and to minimize the demands on the Loan Guaranty Revolving Fund. In March of 1984 we reached our highest number of properties in title: 22,316. By the end of the fiscal year, we had reduced that figure to 21,895, and as of the end of January of 1985 we had achieved a reduction to 21,585, with an additional 11,546 properties pending acquisition by the VA.

Our fiscal year 1984 sales were 18 percent higher than the fiscal year 1983 sales, and somewhat higher than the combined 1981 and 1983 sales. During fiscal 1985 to date we have sold 8,273 properties, a figure 30 percent higher than the number sold during the first 4 months of fiscal year 1984. In January of 1985, our field stations sold 2,478 properties, the highest monthly sales figure since September of 1966.

We took several steps to promote cash sales as well as overall sales in 1984. Continued emphasis on these program changes should help us to accelerate the downward trend in our inventory during 1985.

In recent years the Loan Guaranty Revolving Fund has been substantially depleted. A supplemental appropriation of $100 million and an appropriation transfer to the fund of $160 million were needed in fiscal year 1984. Additional funding was provided in fiscal 1985 of $306 million. Current budget projections show that the fund would need an additional appropriation of $404.6 million for fiscal year 1986 and additional amounts each year through 1990 unless new sources of revenue are found.

As part of a Governmentwide policy to charge origination fees for Federal credit programs, and maintain the solvency of these programs, the administration is forwarding a draft bill to increase the funding fee from the current 1 percent to 5 percent. The entire fee could be financed over the life of the loan. Purchasers of VA-owned properties with vendee loans would have the option of paying the 5-percent fee or paying a 1-percent fee, making a 5-percent downpayment and providing private mortgage insurance on the balance.

The administration's draft bill would also repeal the VA's authority to set the maximum interest rate which veterans may pay on VA-guaranteed home loans and allow the rates to be negotiated between the lender and the veteran.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions you or the other members of the subcommittee may have.

[The statement of Robert O'Toole appears at p. 37.]

Mr. SHELBY. Thank you, Mr. O'Toole.

A memo recently to the committee by the Congressional Budget Office projects that due to favorable economic growth, the Loan Guaranty Revolving Fund will not need appropriations to keep it going. As a matter of fact, CBO projects outlays of only $136.3 million. This is a far cry from the figure forecasted by the administration.

Would you comment on the differences between these figures, and the reason?

Mr. O'TOOLE. We received a copy of that projection within the last 2 days and really haven't had a chance to look at the CBO estimates. I think their projections indicate a higher property sales figure than we do and a lot faster reduction in the number of foreclosures that are going to take place. I certainly would want to talk to the CBO folks and see where they got their projections.

Mr. SHELBY. Mr. O'Toole, does the VA intend to follow a policy of selling real property and loan assets to the greatest extent possible in order to minimize the need for appropriations to the Loan Guar-

anty Revolving Fund; and if so, why does the budget reflect a declining rate of such sales in 1985 and 1986, if it does?

Mr. O'TOOLE. Mr. Chairman, as I recall, the budget indicates that we will sell loans as we make them in order to reduce the need for appropriations. Now, what is going to happen because of the Deficit Reduction Act, we are not going to have as many loans to sell because we're selling more properties with cash. So the budget shows a higher income from cash sales and a lower amount of properties sold with vendee financing.

Mr. SHELBY. But it just goes to show, though, that the more properties and loans you sell the more money you have to play with, and subsequently you will require less appropriations?

Mr. O'TOOLE. That's right. The more houses we sell with cash or with vendee financing, the need for appropriations will be reduced.

Mr. SHELBY. On page 11 of the statement you state that when FHA fees were raised from one-half of a percent per year on the unpaid balance to 3.8 up front in 1983, there was fear that demand would drop off and this does not appear to have happened.

Wasn't this done in conjunction with FHA's reducing a one-half percent fee monthly which actually resulted in a slight decrease in monthly payments? In other words, isn't this, therefore, an irrelevant comparison? We all know that an increase in the VA fee would result in additional charges.

Mr. O'TOOLE. Well, the FHA changed the way they collected the mortgage insurance premium from a monthly amount to a payment up-front, and that 3.8 percent amount was able to be financed and it resulted in no increase, or decrease, for that matter, in the amount of——

Mr. SHELBY. In other words, it was front-loaded, wasn't it?

Mr. O'TOOLE. That's right.

Mr. SHELBY. Rather than on a monthly basis, like it had been for years.

On page 11 of your statement you also indicate that since 1951 $1.7 billion has been borrowed from the Treasury by VA. This is an outflow. Your statement does not reflect the amount which the VA has collected and paid into the Loan Guaranty Revolving fund. So that we can get a realistic perspective on the actual cost of the program, how much was actually collected and deposited into the Loan Guaranty Revolving Fund since 1962? Do you have those figures?

Mr. O'TOOLE. I don't have the exact figures. I can provide that for the record. Our earlier indications are that the deposits into the fund from collections at least equalled and probably exceeded the amount that was necessary to transfer from the direct loan fund into the Loan Guaranty Fund.

[Subsequently, the Veterans' Administration provided the following information:]

Since started in 1962, receipt from program operations totaling $10.1 billion, have been paid into the fund through February 1985.

Mr. SHELBY. Mr. O'Toole, this is probably a tough question for you, in a way, because you speak for the VA and administration and maybe not personally.

I want to ask you: Do you personally agree with the OMB projections that the proposed fee increase would have no effect on the Loan Guaranty Revolving Fund beyond a rise in the average fee collected? If not, what other effects do you think are likely to occur? What about possible effects on default rates, default costs, or discounts on vendee loan sales? Could you provide the committee with an estimate of the impact of this measure, reflecting all the secondary effects that you would expect would occur.

Would you care to comment on that?

Mr. O'TOOLE. Well, that's a four- or five-part question, Mr. Chairman.

Mr. SHELBY. Let's take it one at a time.

Mr. O'TOOLE. I can assure you that the proposal to impose a 5-percent fee did not originate in my office.

Mr. SHELBY. OK. Thank you. I was hoping it didn't, and I thought it didn't. I appreciate your candor.

If you already have the authority to set the maximum interest rate by law, what purpose would be served, if any, by the repeal of this authority? How would this benefit the veteran homebuyer?

Mr. O'TOOLE. I'm not sure. Once again, that appears to be an administration policy to allow interest rates in those programs similar to the housing programs to be negotiated between the mortgage lender and the purchaser.

In those times when interest rates are moving fairly rapidly and discounts remain high, I think there are some instances where it would be to the advantage of the veteran purchaser to be able to negotiate that rate to reduce the amount of the discounts and put veterans back into the housing market. However, if we are able to keep the interest rate to the point where mortgage discounts are small enough so the people that are selling houses are willing to pay those discounts, I'm not sure what the effect of removing that ceiling would be.

Mr. SHELBY. Mr. O'Toole, if you know, what ratio of vendee loans to cash sales do you predict? In other words, the budget assumes 72 percent vendee and 28 percent cash. Do you have any figures on that?

Mr. O'TOOLE. Well, we are working on the Deficit Reduction Act requirement of 25 percent cash sales. I think now we're running about 18 or 19 percent, and that has been increasing over the last few months. I think we will meet the 25 percent requirement in the law.

Mr. SHELBY. What have you done to accelerate the selling of inventoried properties? You seem to still have a good many on hand. I know you sell them, but they continue to come in.

Is there any way to market them and move them out faster?

Mr. O'TOOLE. We have done a number of things. We sent some of our staff people to the 7 offices that had 50 percent of the inventory and made some changes in the sales effort in those offices. We have changed the procedure on accepting offers below list price. We are offering a 10-percent discount for all cash. We are always looking for new ideas, Mr. Chairman, to move that inventory.

The inventory is moving. Our sales are——

Mr. SHELBY. Are you selling a lot of property as is? I have been around the country and talked to a lot of people about their prop-

erty inventory and what they're doing with it. I know the VA has put more flexibility in certain areas and have undertaken pilot programs.

Have you seen any areas where it would pay you to go ahead to move properties as is, rather than keep them and let them deteriorate?

Mr. O'TOOLE. We really try to sell as is without putting a lot of them into repairs, particularly in those parts of the country where repair programs don't last very long. That's the emphasis, to cut down on the length of time we keep the house and reduce the amount of money we're putting in in order to maximize what we're getting out.

Mr. SHELBY. Mr. O'Toole, one final question—and maybe I should just make a statement. It is my feeling, from talking to a lot of people in the housing industry and the VA as it relates to promoting the VA Loan Guaranty Program, that the 5-percent fee would just about destroy the VA housing program as we know it today. Do you agree with that statement?

Mr. O'TOOLE. It would certainly change it, Mr. Chairman.

Mr. SHELBY. And you're being charitable by your words. I appreciate your candor.

I first want to recognize the gentleman from New Jersey, Mr. Smith, the ranking Republican on the committee.

Mr. CHRISTOPHER SMITH. Thank you, Mr. Chairman. A couple of questions, Mr. O'Toole.

In looking at your statement on page 11, you note that all service-connected disabled veterans will continue to be exempt from the loan origination fee. I was wondering if you had any figures as to the ratio of the number of loans to service-connected disabled veterans and those who are not.

Mr. O'TOOLE. Our estimates, Congressman, are about 3 or 4 percent of those currently obtaining VA loans are not paying the funding fee, which means they meet the service-connected requirement.

Mr. CHRISTOPHER SMITH. To follow up on one of the questions of the chairman, in noting that some $200 million more is estimated to be taken in in 1986, again from page 11 as well as from your oral comments, what kind of studies have been done within the VA to project participation? Certainly, to come up with a figure of $200 million, we have got to have some kind of figures of the number of veterans who will partcipate in the next fiscal year.

Mr. O'TOOLE. Well, the excess of $200 million assumes that there will be no impact at all from the imposition of the fee. The original estimate of 220,000 originations would remain the same.

As the chairman mentioned, the administrator talked about this at the full committee hearing. We have had a lot of estimates on what the impact of the 5-percent fee will be. We started with a 50-percent figure in our early negotiations with OMB. I think maybe that's too high. The CBO in the last couple of days has estimated a 20-percent falloff. Some industry people have said 10 or 15.

We really don't know because there isn't anything out there that compares with that kind of an up-front fee that we can base a good estimate on.

Mr. CHRISTOPHER SMITH. So the low side of the equation would be a 20-percent dropoff and a high would be up to 50?

Mr. O'TOOLE. I would think that is probably fair.

Mr. CHRISTOPHER SMITH. Then to reiterate my opening statement, as well as what the chairman has just pointed to, it will effectively kill the program at least for a significant number of veterans. The committee will probably not go along with the proposed change, and I think it is in the veterans' best interest and the program's best interest.

I would also point out that the high rate of defaults, in my opinion—and perhaps you would want to comment on this—is largely due to the recession, which is now behind us. Home loans under the VA, as well as housing throughout the entire economy, were adversely affected by that recession, but again, it is behind us.

Perhaps you would want to comment on that.

Mr. O'TOOLE. Well, I think that is right. Housing is having a difficult time moving out of that recession. But I think you should also be aware of some movement in areas that are having difficult economic times now, particularly in energy-related areas. Parts of Colorado and Texas are really having some difficulties and we have noticed that in our default notices we receive in the regional offices.

So I think that you're accurate in that we're moving out of it. We have seen some improvement in the newly reported defaults, but it's going to be a longer haul than we estimated originally.

Mr. CHRISTOPHER SMITH. Just to conclude, Mr. Chairman, I would like to commend Mr. O'Toole, who has done an outstanding job at the VA. I think you're between a rock and a hard place personally. I think OMB has placed you in this position and hopefully the Congress will act wisely and prudently and not go along with this proposal.

Thank you, Mr. Chairman.

Mr. SHELBY. Mr. O'Toole, I just want to commend you again, on your candor. I believe you are a spokesman for veterans and not for Mr. Stockman.

Mr. O'TOOLE. Thank you, Mr. Chairman.

Mr. SHELBY. I think Mr. Stockman maybe needs to go down to the VA to see what's going on.

The Chair recognizes the gentleman from Ohio, Mr. Applegate, for 5 minutes.

Mr. APPLEGATE. Thank you, Mr. Chairman.

Mr. O'Toole, I concur with what our chairman said. You have a dirty job to do, I guess you might say—as we might say—but I think it is reprehensible that the OMB has come through with this kind of a proposal, as they have in some other recommendations that they have made. But you, unfortunately, have had to be here to sort of push this a little bit, even though you don't have any real feel for it, because I know that you, as the chairman has stated, are for the veteran.

You talked about the fact that the VA is continuing to experience a large number of defaults. It is just hard to understand why, especially in light of the fact that the economy seems to be doing so well, and the President keeps telling us that the economy is doing so well—I don't know that everybody necessarily feels that in their

pocketbook, they certainly don't in my area and home loans aren't too good—on page 4 you mention the fact that the continuing recovery of the economy will translate into a decrease in defaults, foreclosures and claims paid in the near future.

What is the near future? Because most economists that I have read or talked to claim that in 1986 we may be looking at a very serious recessionary period. What is the near future and what kind of a future does this hold?

Mr. O'TOOLE. Well, in talking about the near future, I guess we are talking about the next couple of fiscal years. We really have seen some improvement in some areas. The real question is: Why are we having such a high rate of foreclosures? We have identified some of those and I would like to ask Ray Brodie, our Assistant Director for Loan Management, to go over some of those with you, Mr. Applegate, if that's OK.

Mr. APPLEGATE. Sure.

Mr. BRODIE. Well, Congressman, the economy has recovered, but it hasn't recovered equally in all areas of the country. Many families who qualified for home loans based on their combined incomes have either lost or incurred some reduction in that income and they are unable to meet their mortgage obligations today.

And then today we have a stable or declining market for properties which sort of precludes delinquent borrowers from readily selling their homes, where in the past we had an appreciating market.

It seems like there is more marital problems today and that leads to a high incidence of foreclosures.

Previous unemployed borrowers now are returning to their jobs and are unable in many instances to cure their loan defaults because they have become over obligated during that period when they were unemployed, or now they get a job at a lower rate of pay.

We have had some instances where we have had moritoriums in different States on foreclosures for a period of time, and now those moritoriums have been lifted and foreclosures are proceeding again. We had a number of properties secured by delinquent loans that now have been released from bankruptcy. They were in bankruptcy for a good period of time and now they are in the process of being foreclosed.

So I think all of those things have a bearing on why foreclosures have maintained themselves at a fairly high rate. There is a lag period that exists here.

Mr. APPLEGATE. It is mentioned that there is an expected shortfall on the VA Loan Guaranty Program. Is this the result of really a deficiency in the program itself? Is there something wrong in the system that the VA is experiencing in the past few years that has created a deficit of a half-a-billion dollars? If so, I wonder why we have to call upon the veterans of the Nation to shoulder the burden of a failure that appears to lie within the VA itself and the way the program has been operated. That's the way it appears to me. I don't know.

The veterans, of course, are very concerned and upset about that. You still have to keep going back to the veteran and they have got to pick up the cost of somebody else's inefficiencies, or a program that is deficient.

Mr. O'TOOLE. Mr. Applegate, I am not sure that we concur with you, that there are some built-in program deficiencies. Our feeling is that the reason there are shortfalls in the fund is because of the high rates of defaults and claims that have occurred in the last couple of years, and the fact that the fund was depleted beginning in 1982 and our assets were reduced because we sold most of the loans we had in our portfolio.

When you look at the length of time from the beginning of the revolving fund in 1963—there was an initial appropriation made and then no appropriation made until fiscal year 1984—the average cost per loan of the program is pretty small.

Mr. APPLEGATE. Let me ask you this: In the event you don't have your heart and soul in this thing, are you going to continue to allow the shortfall to continue, or how is it going to be picked up?

Mr. O'TOOLE. The means we have to reduce the need for appropriations is the assets we have, which is the properties that we own, some $800 to $900 million worth of houses that we have. Our effort is to move those, to move them at a price that maximizes the amount we can receive for them. I think we could probably auction them all off tomorrow and receive 20 or 30 cents on the dollar, but we feel that it isn't good business to take a discount like that and it wouldn't be very good for the communities where we have that inventory of houses. So we have got to work through that, and reduce the number of foreclosures, where we can service the loans and try to help those veterans that are in difficulty and move that inventory.

Mr. APPLEGATE. Yes, I have seen some of the houses that have been on the market for quite some time, and they continue to lose valuation because of the deterioration. I have been in the real estate business but I haven't handled them from that standpoint.

Thank you very much, Mr. O'Toole.

Mr. Chairman, I would only finish up by saying I think the bill is dead in the saddle and we will do our best to see that we push the rider off.

Mr. SHELBY. Thank you.

The Chair recognizes the gentleman from Tennessee, Mr. Sundquist, for 5 minutes.

Mr. SUNDQUIST. Thank you, Mr. Chairman. I would like to associate my remarks with you and the ranking Republican. I think everything that needs to be said has been said. I don't think Mr. O'Toole is going to be in this problem very long because I don't think this subcommittee is going to approve any change in the law.

I yield the rest of my time.

Mr. SHELBY. The Chair now recognizes the gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I apologize for my tardiness. At the same time, the Hospitals and Health Care Subcommittee on Veterans' Affairs is meeting down the hall on the construction budget, so here we are trying to do everything all at once.

I certainly associate myself with all these remarks. I would like to associate myself particularly with the remarks involving Mr. O'Toole's dedication to the veterans and to his job. It has been a tough one and he has certainly impressed this committee every

time he has testified before it. I mean that, Mr. O'Toole. I think you know that.

I was just wondering, aren't we going about this "bass-akwards", so to speak? We're talking about raising the fee to 5 percent, which I think is very wrong and which I will do everything I can to fight against. We're saying we are doing that because we have too many defaults, the fund is being depleted and we have got to strengthen the fund so we are increasing the fee; consequently, we are probably going to greatly reduce the market for veterans loans.

You know, the program, as I understand it, was first set up to help that veteran who had just recently gotten mustered out and who hadn't had an opportunity in the service to be able to build up much of a savings fund. The program gives that person the opportunity to be able to buy a home. So this 5 percent would be applicable to that particular person. It would also be applicable to me, a veteran of the Korean war—and I certainly can afford to buy a home and have been buying my homes without going through the VA, except when I first got out back in 1955. I did take advantage of a VA loan at that time. I sold that home a long time ago.

What I'm saying is, should we admit there is something wrong with the program, as Mr. Applegate said. Shouldn't we be saying that we need to take a look at the overall program without necessarily saying the program is all right, that we simply need more dollars into the revolving fund.

We have had field hearings with the chairman and have come to a number of conclusions, but one thing has always bothered me. On March 30, God willing, we have a hearing in my district to take a look at what we call Veterans Village down there in New Port Richey, FL., which I guess is a success story as far as veterans housing is concerned. And yet I think we are going to find that most, and maybe all, of the few defaults that we have had in that area are going to be the result of overpricing of properties, and overpricing of homes.

Now, I am not a former real estate person or contractor, the way Mr. Applegate apparently is, but I practiced law in that area for many, many years. I am going to incur the wrath probably of the contractors when I say this—the contractors of that particular project. I think virtually every home in there is overpriced. Now we are adding an additional 4 percent to the financing, because this 5-percent is going to be able to be financed. So it is still a no-down-payment situation. You start out with no down payment, you start out with an overpriced home, which makes it pretty onerous on that veteran and his family to even make that monthly payment in the first place, and now you're cranking in an additional 4 percent on top of all of this.

Those are the reasons why these places are going into default. Yes, we have had heavy recession problems and that sort of thing, and that compounds it. But even without a recession, I doubt very much if a person making $15,000 or $20,000 a year is going to be able to handle those types of monthly payments that are required under the veterans program as it now stands.

Question and statement, I guess, Mr. O'Toole.

Mr. O'TOOLE. Mr. Bilirakis, I'm not sure how to respond to that, except that your example of the overpricing and compounding in-

cludes the 5 percent fee. We're concerned about the appraisal situation, too. Part of that has caused some defaults because what has happened is that housing prices are not inflating the way they did prior to the last couple of years. When you add the loan amount, plus the amount that is not paid in, the unpaid balance and all the costs involved, with somebody in default, the veteran decides it is just too much and he wants to sell that house, the house will not sell in some parts of the country for that unpaid balance, so the lender has to foreclose or the veteran walks away.

Mr. BILIRAKIS. If we start out with an overinflated price, I don't care how fast inflation goes, the price of that home as far as the ultimate resale is concerned is probably never going to reach that point.

Mr. O'TOOLE. The Administrator asked the IG to look at our appraisal operation. We are cooperating with them and I think we're going to do that. I think we will be able to see if that's a problem.

In our program we're only doing 7 or 8 percent of the loans in the country and our prices follow what is happening in the conventional and FHA market. But I think we have a housing problem, rather than just a VA housing problem, if you accept the premise that houses are overpriced.

Mr. BILIRAKIS. Are you basically saying, then, that based on your experience with the VA, housing is not overpriced and the appraisals have been found to be——

Mr. O'TOOLE. I think what I'm saying is that our appraisals reflect what houses are selling for in those communities. If that means it's overpriced, then I think that's not something the appraisal system is doing. People are willing to pay those prices for those houses.

The key question is, are they able to sell the house for that price a year from now or 2 years from now. I think that is the key question, and I don't know if we know the answer to that.

Mr. BILIRAKIS. I thank you, Mr. O'Toole.

Mr. SHELBY. Thank you.

The Chair recognizes the gentleman from Connecticut, Mr. Rowland.

Mr. JOHN ROWLAND. Thank you very much, Mr. Chairman.

As a new member of this subcommittee, I am proud to associate myself with the remarks made by members on both sides of the aisle, and certainly with the ranking member and the chairman. You have to sometimes wonder, I suppose, why OMB doesn't come right out and take us on head-to-head on this program, rather than going in the back door with the five percent fee increase.

Mr. O'Toole, in your testimony you provided other alternatives to solving the problems of default and deficiency, and I think that is a good solid management approach. One of the things I am interested in looking at, in your testimony on page 6 you indicate that fiscal year 1984 sales were 18 percent higher than fiscal year 1983 sales, and somewhat greater than fiscal year 1981 and 1982 put together. You also comment that in fiscal year 1985 to date, and it looks like it is some 30 percent higher than the number sold during the first 4 months of 1984. And looking ahead to 1985, it looks like things are going even better.

If we do the right thing in this subcommittee, which I think we're going to do, and in this committee and in this Congress, that is, not to implement the 5-percent fee, what percent increase—and maybe you have it in your testimony and I might have missed it—what percent increase could you project in sales for the entire year, 1985, and maybe even looking into 1986, assuming we don't have that user fee?

I know it's kind of a crystal ball number, but I think it's worth thinking about.

Mr. O'TOOLE. We estimated some increase in our sales through 1985. Our experience the first few months is a little bit higher than our projection, and we hope that will continue. If that does continue, I think we won't need as much as our earlier projection of $404 million, particularly if we are allowed to transfer the $75 million from the direct loan fund. That is also an item that was in our original estimate.

So what we will have to do as we move through the budget year is redo our estimates and come back to the Congress with those estimates as to what we might need.

Mr. JOHN ROWLAND. I thank you for your comment.

The point I wanted to make is, since 1981 and 1982 things are obviously moving and the program is working out, some of the bugs are being worked out, and it looks like we're moving ahead. It is a shame to have that back door attempt to try to knock out the program.

I appreciate your testimony and also your candor, and certainly the comments made by my colleagues on the subcommittee.

Thank you.

Mr. O'TOOLE. Thank you, Congressman.

Mr. SHELBY. Mr. Rowland, I want to say on behalf of the committee that we really welcome you as a new member to the committee and the subcommittee, and know that you will continue to participate and work on behalf of veterans. It is good to have you here and know that you're going to be with us.

Mr. JOHN ROWLAND. Thank you very much, Mr. Chairman.

Mr. SHELBY. The Chair now recognizes the gentleman from West Virginia, Mr. Mollohan.

Mr. MOLLOHAN. Thank you, Mr. Chairman. It is a pleasure to serve with you on this committee, as I did last year, and I look forward to accomplishing much in a very difficult time with some real threats, I think, to veterans' programs.

As I was attending a Hospitals and Health Care Subcommittee hearing, I missed part of the questioning, so I risk repeating points that have already been covered.

Mr. SHELBY. The gentleman is recognized for 5 minutes.

Mr. MOLLOHAN. Thank you, sir.

I did hear talk that would lead me to believe that the Veterans' Administration is not blindly committed to a 5-percent home loan origination fee. Is that correct? Is that a fair statement?

Mr. O'TOOLE. Mr. Mollohan, we're going to be sending up a piece of legislation that proposes the fee be increased to 5-percent.

Mr. MOLLOHAN. Does that suggest, in view of Mr. Walters' comments 2 weeks ago that he was absolutely in support of the 5 percent figure, that the VA does support the 5-percent figure?

Mr. O'TOOLE. I don't want to speak for Mr. Walters. I think what he said was he was going to support the 5 percent fee, although he did it reluctantly and was concerned about what effect it would have on the program.

Mr. MOLLOHAN. That's fair. He did say that.

Mr. SHELBY. Would the gentleman from West Virginia yield?

Mr. MOLLOHAN. Yes, Mr. Chairman.

Mr. SHELBY. Mr. O'Toole, we realize that you speak for the Veterans' Administration and Mr. Walters is part of the executive branch. I understand that.

But what is bothering a lot of us up here, both Democrats and Republicans, is why don't you speak on behalf of this Nation's veterans? Who it is going to take, the members on this committee, to speak for veterans? We all have a lot of respect for the President. I wonder however, if he really understands the veterans' proposals coming out of OMB. I hope that if he doesn't, he will know after these hearings. If you send these proposals up to this committee, I can assure you, they'll be dead on arrival.

I know you're under a lot of pressure from the Administration. But it's about time the Veterans' Administration speaks for the veteran rather than OMB and Mr. Stockman. I think somebody needs to. I believe it's going to have to be the committee, the service groups, and veterans themselves.

I yield back to my colleague.

Mr. MOLLOHAN. Thank you, Mr. Chairman. You have stated my point very clearly and concisely. I have heard members of the committee say we know that the Veterans' Administration doesn't mean all this, that these recommended cuts in veteran benefits are totally OMB's doing. But I don't hear anything from the Veterans' Administration that suggests the Veterans' Administration is taking up for the veterans in this fight.

Mr. O'TOOLE. Mr. Mollohan, perhaps you weren't in the room when in response to a question from the chairman I indicated that the proposal of the 5-percent fee did not originate in my office.

Mr. MOLLOHAN. I think I understand what you're saying. Nevertheless, you just said you are going to be up here proposing legislation that is going to have a 5-percent fee as a recommendation.

Let me say this—I think I understand your position—and I think the committee does, too. You're in a tight spot.

We had some discussion earlier about what kind of computations would be realistic in order to assure the solvency of the fund by increasing the user fee? By my computations, assuming first, a 220,000 participation rate; second, a 5-percent origination fee; and, third, at an average cost of $3,000, we would have about $660 million, almost $700 million available to the fund. You're estimating that you need about $400 million.

Are those numbers accurate? What is your best handle on what you do need and what percent you need to achieve it?

Mr. O'TOOLE. As we talked at the full committee meeting a couple of weeks ago, the $600 million figure is based on no change in the number of loans that we would make. So it gives us the $400 million shortfall plus an additional $200 million.

If you estimate some shortfall because of the 5 percent fee, we certainly aren't going to make the $600 million estimate. If we use

the CBO report of a 20-percent falloff at 5 percent, I think we would have to go back and try to calculate what the falloff would be if the fee was something below 5 percent. I'm not sure what the CBO would say with a 2 percent fee. Our feeling is, in talking to industry people, there probably wouldn't be too much of a falloff at all with a 2-percent fee and we wouldn't need the full $400 million.

So if you couple that with an increase in property sales that we're projecting, you come pretty close to what is needed to avoid an appropriation.

Mr. MOLLOHAN. I think we need some hard numbers, and I don't know if the Veterans' Administration has that.

Thank you, Mr. Chairman.

Mr. SHELBY. I appreciate the gentleman's participation.

Mr. O'Toole, I realize that you're in a tough spot and I appreciate your candor, as much as you can bring forth. I appreciate your participation here today. But for the life of me I don't understand why the administration, who is advocating security for this Nation, through our Armed Forces want to turn their backs on veterans after they are out of service.

Thank you for coming.

Mr. O'TOOLE. Thank you, Mr. Chairman.

Mr. SHELBY. Our next panel is going to be Mr. John Koelemij, president, National Association of Homebuilders; Mr. Robert Spiller, president of the Mortgage Bankers Association of America; and Mr. Stuart A. Davis, Jr., chairman, Real Estate Finance Committee, National Association of Realtors.

Your written testimony will be made part of the record, without objection. If you would please briefly sum up your testimony, so that there will be time for the members of the committee to questions or make comments.

I am sorry you have waited so long to testify. There is a lot of interest in this program as you know it not only affects veterans, the OMB proposal will also affect the housing industry.

We appreciate your coming this morning, Mr. Koelemij, you will be our first witness.

STATEMENTS OF JOHN KOELEMIJ, PRESIDENT, NATIONAL ASSOCIATION OF HOMEBUILDERS, ACCOMPANIED BY JAMES FISCHER; ROBERT J. SPILLER, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA, ACCOMPANIED BY WARREN LASKO, MBA EXECUTIVE VICE PRESIDENT, BURTON C. WOOD, MBA LEGISLATIVE COUNSEL, AND WILLIAM E. CUMBERLAND, MBA GENERAL COUNSEL; AND STUART A. DAVIS, JR., CHAIR, REAL ESTATE FINANCE COMMITTEE, NATIONAL ASSOCIATION OF REALTORS

STATEMENT OF JOHN KOELEMIJ

Mr. KOELEMIJ. Thank you very much, Mr. Chairman.

In the first place, I heard that you made some comments about testimony being late. I need to apologize to you because ours was late. We have some 400 builders in town who are going to the Hill to visit with their Members of Congress on deficit reduction and tax issues, and that is why were were somewhat late.

Mr. SHELBY. Well, we accept your apology. We just want you to give us an opportunity—for everybody, not just you—because when we get the testimony ahead of time, it gives us a chance to reflect on it and it helps us be efficient.

Mr. KOELEMIJ. I appreciate that, Mr. Chairman.

Mr. SHELBY. We understand why your members are here and we look forward to your testimony.

Mr. KOELEMIJ. We also would like to take the opportunity to mention that one of our senior officers, Jim Fischer from Nashville, TN. is with me here at the table to support my efforts.

Mr. SHELBY. We have a gentleman from Tennessee, Mr. Sundquist, on the subcommittee. I am sure you can tell he's an active participant.

Mr. KOELEMIJ. I thank you.

Mr. Chairman, my name is John Koelemij and I am a homebuilder from Tallahassee, FL. NAHB is a trade association of the Nation's homebuilding industry, of which I am president. Almost 20 percent of our builder members are involved in building housing financed under the Veterans' Administration housing programs.

I am pleased to present our views in person on the VA Home Loan Guaranty Program and the administration's fiscal year 1986 budget proposals, including the increase in the VA fee, the elimination of the administratively set VA interest rate, and the consolidation of VA offices.

First I would like to take this opportunity to comment on the Veterans' Administration Home Loan Guaranty Program in general. VA housing programs have given four generations of veterans and their families the opportunity not only to obtain home ownership but to put down roots and establish community ties.

Throughout its history, the Veterans' Administration has operated a very successful Guaranteed Home Loan Program that has achieved and continues to achieve the social policy goals spelled out by the Congress.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB has always supported the VA Home Loan Guaranty Program and believes the VA to be one of the best Federal agenices in terms of service to the consumer and to the home builder.

Mr. Chairman, it is clear that we are preaching to the choir with respect to the administration's fiscal year 1986 budget proposal to increase the user fee on the Veteran's Administration Home Loan Program from 1 percent to 5 percent. I share your view, as stated in your January letter to the President, that a 5 percent fee—and I quote—"* * * would serve to impose a selective tax burden on home-buying veterans—a burden not shared by the general population." The fee increase simply represents a new tax on veterans.

The administration's proposal to increase the fee is contrary to long-standing Federal policy. Congress spoke very clear in 1944 when authorizing the GI Home Loan Program as an entitlement program to enable veterans to obtain mortgage credit. Over time, Congress has acted wisely to increase the entitlement, expand the category of eligible veterans, and extend the period during which the entitlement could be utilized. There has been a bipartisan commitment over the past 40 years to help veterans purchase their

own homes and it should take no less than explicit congressional action to retreat from that policy.

In addition, the proposed user fee unfairly penalizes future borrowers and will not produce the projected revenue. Such a large increase in the fee will cause a substantial decrease in the volume of VA loan activity projected to be as high as 50 percent, and it will increase future losses because a zero down payment loan would begin negatively at 105 percent of value and it would be several years before equity is sufficient for the veteran to break even, with chances of default being much greater, causing losses to the fund.

The proper course of action is to cover expected shortfalls in the VA fund by appropriation, if that is required. NAHB would be happy to work with the Congress in developing alternatives that will minimize current losses, while preserving the program over the longer term.

Mr. Chairman, we support the continued use of the administratively set VA interest rate. At our January convention, NAHB passed a resolution, which is attachment A to our statement which you have accepted for the record,[1] which supports the dual system of a floating FHA rate and an administratively established VA rate to be continued for at least two more years. This will allow for the operation of the FHA floating rate to be tested over time, including times of high interest rate volatility.

Also included in the fiscal year 1986 budget is a proposal by the administration to consolidate the VA's 59 regional offices into three offices, similar to action proposed by the administration in 1981. Mr. Chairman, we opposed that action then and we oppose it now. In fact, I testified on the issue of the office in Florida and I can testify truthfully to the fact that the removal of the office from Jacksonville to St. Petersburg has seriously hampered the operation, the fruitful operation and convenient operation to the veterans and the builders since that was done. We are constantly having meetings to try to solve these problems. So we oppose the consolidation of all these offices.

While we have been told that this proposal would not disrupt loan processing activities for veterans and builders, as there would still be contact points at the various regions, I have serious questions as to the efficiency of this system and what might amount to diminished services.

I would also like to quickly comment in support of two bills affecting the VA Home Loan Program which have already been introduced in the Congress, including your own bill, Mr. Chairman, and Senate bill No. 9. These bills raise the loan guaranty maximum from $27,500 to $30,000 and $35,000 respectively. Senate bill 9 would further provide for an adjustable rate mortgage for the VA, similar to that provided under a demonstration program for FHA in the 1983 Housing Act.

Attachment B [2] and C [3] to our testimony shows the need to increase the loan guaranty maximum. Given the 32-percent increase

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[1] See p. 61.
[2] See p. 62.
[3] See p. 63.

in the cost of housing since the last time the loan guaranty maximum was raised in 1980, we believe that an increase in the loan guaranty amount is well justified.

Adjustable rate mortgages have proven to be a valuable tool in the marketplace. We would basically support the concept of an adjustable rate mortgage for the VA as an additional mortgage instrument for the veteran homebuyer. We feel, however, that the 1-percent interest rate increase limitation per year in the Senate bill should be made more flexible and reflect market conditions.

In conclusion, Mr. Chairman, I would like to emphasize our strong opposition to the increase in the VA user fee for veteran homebuyers. And this goes across the membership of our association. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans.

I would be happy to respond to any questions. Thank you very much, Mr. Chairman.

[The statement of John Koelemij appears at p. 50.]

Mr. SHELBY. Thank you.

Aren't you on a tight schedule? Can we go ahead with the other witnesses, or do you want to leave?

Mr. KOELEMIJ. No, that's fine, Mr. Chairman. I am available; yes, sir.

Mr. SHELBY. OK, fine.

Mr. Robert Spiller, president, Mortgage Bankers Association of America. Mr. Spiller, welcome to the subcommittee.

As I said earlier, your written remarks will be submitted in the record and made a part thereof, without objection. You can summarize anything you want to say to us this morning.

STATEMENT OF ROBERT J. SPILLER

Mr. SPILLER. Thank you, sir.

Mr. Chairman and members of the subcommittee, my name is Robert Spiller. I am chairman and chief executive officer of The Boston Five Cents Savings Bank of Boston, MA. I am also president of the Mortgage Bankers Association of America. Accompanying me today are Warren Lasko, who is MBA's new executive vice president; Burton Wood, MBA's legislative counsel; and William Cumberland, MBA's general counsel.

We appreciate the opportunity to appear before you today to testify on the administration's proposed budget for the Veterans' Administration for fiscal year 1986, especially the provisions of that budget that call for the imposition of a 5-percent user fee for the VA Home Loan Guaranty Program and the provisions that would revoke the authority of the Administrator to set maximum interest rates for loans guaranteed in the VA Home Loan Program.

In testimony before the Senate Veterans' Affairs Committee on February 20, the administration all but admitted that this proposed fee is a tax when it said that the 5-percent figure was "sort of pulled out of the air" by OMB to reduce the budget deficit.

On the basis of this and other factors, MBA believes that the proposed fee is a thinly disguised tax on veterans seeking to own a home, and is contrary to the whole purpose of the VA Home Loan Program. The proposed fee is an indirect effort to undercut the de-

cision of Congress, reviewed and revised as recently as last year, to recognize veterans service by helping veterans to own their homes. If additional taxes are needed, they should be broad based and not targeted to veterans. MBA urges that the proposed 5 percent fee be rejected and that adequate funds be authorized and appropriated to continue the operation of the VA Home Loan Guaranty Program in fiscal year 1986.

Charging 5 points will present a dilemma to the VA regarding no-down-payment loans. If the VA tries to collect the fee from the veteran, then the loan really is not a no-down-payment loan at all. There would be the equivalent of a 5-percent downpayment. The borrower would be required to come up with the fee, just like a downpayment. The no-down-payment loan is the unique characteristic of the VA Home Loan Program. A majority of its loans are no down payment. If you eliminate the no-down-payment feature, you have gutted the program.

On the other hand, if the VA allows the fee to be added to the loan, the no-down-payment loan becomes 105 percent of the value of the house. In the long run, this will tend to increase foreclosures and compound the current losses in the program.

Incidentally, working with the VA, MBA has agreed to a joint task force to examine the recent surge in foreclosures in the Home Loan Guaranty Program and to make recommendations to the VA to strengthen the program and reduce foreclosures.

As a lender, my company, The Boston Five Cents Savings Bank, will withdraw from the VA program if the 5-point guaranty fee were to be imposed. We are the largest residential lender in New England. If the 5-point fee were imposed under current market conditions, we would be required to charge borrowers 11 points. The public's feeling about points in Massachusetts is clearly reflected in Massachusetts law outlawing the charging of more than 2 points. FHA and VA are technically exempt, so we could probably charge 11 points legally, but the public will blame lenders for excessive points and, as a matter of public policy, our loan committee has decided that if the 5-percent fee were to be imposed, we would shut down our VA business rather than incur the wrath of the community and, all importantly, the media.

The proposed fee is far more than is needed for fiscal year 1986 operations. Indeed, it is 48 percent more. More important, assessing fees on new loans for 1 year's losses simply does not reflect a sound business approach to analyzing suitable fee levels.

The proposed 5-percent fee would be a significant increase in income tax for home buying veterans. For example, for an average mortgage, the proposed fee would increase the veteran's income tax by 14 percent per year if, as will likely happen in most cases, the fee is added to the mortgage. If the veteran pays in full in cash, the tax would be $2,560 in the year of the guaranty, over double the average income tax. The President may have promised no additional income taxes during his campaign, but for the veteran obtaining a VA home loan guaranty, the President is proposing a substantial income tax increase. Certainly this is discriminatory against moderate-income people.

There is another way of expressing the cost to veterans of imposing the 5-percent fee. Based on the most recent census statistical

distribution of veterans' income, higher income would be required by the proposed fee would mean that approximately 850,000 veterans would be precluded statistically from buying the house now financed with the average VA loan of $64,000.

Averages are not the only way to understand the adverse impact upon the cost to veterans that adoption of the proposed 5-percent fee would have. In fact, the hardest hit veterans would be those in the lower income ranges. Marginal cases are those where the veteran is stretching to buy a home. In calendar year 1984, approximately 60 percent of VA's marginal prior approval cases were for mortgages below the national average.

When Congress created the VA Home Loan Guaranty Program in 1944 to assist veterans returning from World War II to buy a home, Congress did not design it or intend it to be user-fee supported. From the beginning, there was a realization that the program would need appropriations, and appropriations have been made in several fiscal years during the operation of the program.

The Reagan administration has consistently believed that the Government should discontinue the commitment to supporting the homeownership aspirations of Americans. This year the administration has recalled the political theory tenent that "the power to tax is the power to destroy." By proposing a 5-percent tax on the users of the VA Home Loan Guaranty Program, the administration has taken a first step toward accomplishing indirectly what it cannot achieve directly: A diminution and even a phasing out of the VA Home Loan Guaranty Program. For the first time since 1946, housing was not mentioned in the State of the Union Message.

MBA strongly urges that this subcommittee and the Congress reject the proposed 5-percent guaranty fee for the VA Home Loan Program, and authorize and appropriate the funds for fiscal year 1986 to keep the program operating.

MBA appreciates the opportunity to appear before the subcommittee today and I would be happy to answer any questions you may have.

[The statement of Robert Spiller appears at p. 64.]

Mr. SHELBY. Thank you, Mr. Spiller.

Our next participant on the panel is Mr. Stuart A. Davis. He is the chair, Real Estate Finance Committee, National Association of Realtors.

Mr. Davis, your written testimony, as I stated earlier to the others, will be submitted for the record, without objection, in its totality. You may speak to the subject matter when you're ready.

STATEMENT OF STUART A. DAVIS, CHAIRMAN, REAL ESTATE FINANCE COMMITTEE, NATIONAL ASSOCIATION OF REALTORS

Mr. DAVIS. Thank you, Mr. Chairman.

As you point out, my name is Stuart Davis. I am a realtor from St. Louis, MO. I am the chair of the Real Estate Finance Committee of the National Association of Realtors and I am also a former members of the President's Commission on Housing.

On behalf of the more than 650,000 members of the association, I want to thank the Chair, Mr. Shelby, and members of the subcom-

mittee for the opportunity to present our views on the President's fiscal year 1986 Veterans' Administration budget proposal and, in particular, the recommendation to increase the current 1-percent user fee on VA-guaranteed loans to 5 percent.

First to review the objective of the VA Home Loan Guaranty Program. The Veterans' Administration Home Loan Guaranty Program, as you have been told several times, was conceived in 1944 in response to the aftermath of World War II. The program was intended to benefit men and women because of their service to this country. There was no intention that the program serve as an instrument to achieve any Federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners through the provision of favorable credit. In carrying out the objective of credit accessibility for all veterans, the program has become for some a benefit to which they feel entitled, and to others a bastion of last resort.

As to the proposed fee increase, in the fiscal year 1986 budget proposal, President Reagan has recommended as a part of his budget deficit reduction package an increase in the user fee from the present 1 to 5 percent. In responding to the issue of the budget deficit, the association testified before the Senate Budget Committee on February 22d and recommended then—and I quote: ". . . any changes in taxes or tax-like user charges (be designed) to encourage both long-lived and short-lived investment in housing, homeownership, commerce and industry."

The President's increase in the user fee rejects this recommendation and, instead, imposes a tax-like charge upon the program and, more specifically, the veteran. As previously noted, the purpose of this guaranty program was to benefit the veteran for his or her service to their country. The imposition of an increased user fee would only serve to malign this objective through monetary disqualification for some veterans.

For example, the Veterans' Administration Home Loan Guaranty Program currently requires no down-payment for most of its loans. The VA has indicated that it will offer borrowers the option of paying the user fee either up front or by adding it to the loan amount. If the fee is added to the loan amount, thus amortizing it over the life of the loan, the effect is to establish a loan-to-value ratio of 105 percent.

Such a high loan-to-value ratio is likely to be a strong factor in underwriting of loans to those veteran borrowers in the "marginal" category. Therefore, the up front option might be the lenders preferred method of payment. Requiring the fee to be paid in an up front fashion would certainly defeat the purpose of the no-down-payment benefit of the program, particularly for those borrowers who need it the most.

Furthermore, in some cases the seller may be asked to absorb the additional user fees, thus further escalating the price of the house and, conceivably, eliminating the seller's continued interest in negotiating a sale on the VA loan.

As to the impact on VA loan originations, there are two types of loan underwriting methods used by the Veterans' Administration. Loans which generally conform to the FNMA/GNMA standards in terms of the financial or property characteristics are underwritten

by lenders as automatic approvals. These loans comprise almost 53 percent of the total program. Because automatic approvals are underwritten by the lender, the VA does not have any available data on the financial characteristics of those loans. Therefore, a direct analysis of the loan loss percentage cannot be generated. However, our economic analysis estimates that approximately 5 percent of the lower income level of marginal VA borrowers in the automatic approval category would be adversely affected by the increased fee.

There is an attached addendum, members of the subcommittee, which amplifies this, and some other data that we prepared for you.

Mr. SHELBY. That will be, as I said earlier, made a part of the record.[1] We need that.

Mr. DAVIS. Thank you.

The other type of loan process is the prior approval. Generally speaking, this type of loan usually involves a borrower with a more risky financial profile. In this case, the loan as submitted to a VA-approved lender is nonconforming to general VA underwriting or property guidelines. The loan must be authorized by VA underwriters before the lender can approve that loan. Prior approval home loans make up slightly more than 47 percent of the total program.

It is the prior approval segment of this program which is most likely to be most affected by the increase in user fees. Our analysis estimates that approximately 30 to 40 percent of the prior approval loans would be lost as a result of the increased fee. Combining the effect on both the automatic and prior approval segments, the proposed fee increases would likely cause a reduction of between 17 and 22 percent of the total number of VA originations.

Such an impact can neither be rationalized nor defended as deficit reduction, or as having, as the administration claims in its budget documents—and I quote—"only the effect of increasing the fees by 500 percent." The very purpose of this program is dramatically altered by these fee increases and, once again, those desiring homeownership will be denied.

We have some alternatives to increasing the VA fees that we would like to share with the subcommittee. While the association strongly opposes an increase in VA fees for the reasons outlined above, we want to provide the subcommittee with suggested alternative approaches to improving the financial stability of the VA Home Loan Guaranty Program.

First, underwriting standards. We recognize that because of the very nature of the VA Home Loan Guaranty Program, the underwriting standards are, of necessity, "flexible." However, we continue to be concerned that every effort be made to ensure that the veteran borrower has the ability to assume and discharge the financial obligation of his home loan.

Second, foreclosure procedures. As I am sure this subcommittee knows, the VA Loan Guaranty Revolving Fund was, until recently, self-sustaining. In fact, only 4 percent of the total VA loans which have been originated since the inception of the program have resulted in foreclosure.

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[1] See p. 76.

While a reduction in the availability of internal funding to the fund has been one of the major contributors to its financial ills, we are concerned that the VA's foreclosure policies have perhaps exacerbated the decline in the revolving fund. Prior to the enactment of the Deficit Reduction Act of 1984, in July of that year the VA, in about 95 percent of its default cases, chose to acquire and resell the foreclosed property, while compensating the lender for its direct costs incurred during the default and foreclosure process.

In an effort to address this issue, Congress adopted a provision in the Deficit Reduction Act which requires the VA to undertake a case-by-case analysis in all default situations to determine which foreclosure method is most cost effective:

First, acquisition and resale of the defaulted property, with compensation to the lender for its costs.

Second, payment of the loan guaranty only. According to the VA, this new procedure has, in fact, reduced its acquisition rate from 95 percent to 90 percent.

Third, disposition of properties. As testified earlier, currently the VA has 22,000 properties in inventory valued in excess of $800 million. We strongly recommend that the VA continue its review and evaluation of the effectiveness and strength of current disposition methods to identify those areas that can use improvement.

Fourth, the vendee mortgages. It is our understanding that when the VA sells one of its acquired properties to a nonveteran, that veteran is provided with a direct loan at a reduced interest rate, along with a promise by the VA to repurchase the property in the event of a subsequent default. We find no rationale for that, Mr. Chairman, and suggest substantive changes in that particular program.

As our concluding remarks, we strongly urge the subcommittee reject the administration's recommendation to increase the user fees from 1 to 5 percent. The proposal is not cost-based, does not reflect the nature and philosophy of the program, and certainly it will jeopardize the viability of an essential mortgage financing tool for most veterans.

At this time we again ask that you accept our written statement for the record, and we thank you and the subcommittee for allowing us to be present.

[The statement of Stuart A. Davis appears at p. 78.]

Mr. SHELBY. Thank you for your testimony on behalf of the National Association of Realtors, Mr. Davis.

My first question would be for Mr. Koelemij, president of the National Association of Homebuilders. Do you believe that since President Reagan is vitally concerned with the growth rate of the economy, as we all are, that the imposition of this fee is consistent with that policy of growth? In other words, is the 5-percent fee going to help the housing industry?

Mr. KOELEMIJ. No, Mr. Chairman.

Mr. SHELBY. It would do just the opposite?

Mr. KOELEMIJ. That's correct. It would be contrary to that kind of concept and it would hurt us.

Mr. SHELBY. Sure, it would.

Mr. Spiller, in a Mortgage Bankers Association press release dated January 11, 1985, you state generally that you are in opposi-

tion to increasing or instituting fees that are really disguised tax hikes for moderate- and middle-income buyers. I note with interest that the increased fee for veterans would be more burdensome than that imposed by the Federal Housing Administration.

Would you care to comment on this?

Mr. SPILLER. I think you've said it all, quite succinctly. It makes no sense at all——

Mr. SHELBY. There's no logic to it, is there?

Mr. SPILLER. There is no logic to it. In the legislation that you have proposed to raise the guarantee, which is very good legislation, if the 5-percent fee were to occur to the $30,000 guarantee, it couldn't be used because there would be no loan.

Mr. SHELBY. It seems to me that there are people that would try to destroy, and have been trying to destroy, the VA loan guaranty program.

It was said a minute ago by one of you that this is a back door proposal, I believe that this is a sneaky way to destroy the VA Program. I believe the veterans groups, the American people, and Members of Congress are wiser than that. It seems like a slap in the face to the veterans of America and to their service groups to come up with these proposals.

Mr. SPILLER. I think the 11 points is a dramatic issue that needs to be looked at, because I checked our rate sheets this morning before I came over and we are currently at 2 and 5, and 5 is the discount and 2 is the origination. If we add 4 more to that, that's 11 points that is going to be added onto the price of that housing in one form or another. A part of it would be higher price, and the rest of it up front.

I think the administration is, in fact, saying "we do not wish the loan guaranty program to continue." That's the conclusion we have.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee, Mr. Sundquist.

Mr. SUNDQUIST. Thank you, Mr. Chairman. I would like to thank these gentlemen for their testimony and to welcome our friend from Tennessee, Jim Fischer. He is one of our outstanding citizens, he and his wife Jane their and two lovely daughters. They are from Nashville and we're proud of Mr. Fischer.

I had several questions but I think they have essentially been answered, except for a couple. One is—and I am not asking this question because I would necessarily support it—but one of the problems we have is how to reduce the Federal deficit. Mr. Koelemij, I understood you to say you're against any centralization of the offices and the regions into three areas; is that correct?

Mr. KOELEMIJ. Yes, sir.

Mr. SUNDQUIST. Would that not save money if we were able to do that?

Mr. KOELEMIJ. Mr. Sundquist, when we looked at all the numbers that were presented for consolidation of offices in the State of Florida, we found them lacking of substance, really. The numbers that were given were only one way. They did not include numbers where they had to rent space outside the building. But if you take the operation, the only way now to reach that office is to call a number. You talk to some person who will answer that phone and

that message will ultimately reach a department head, who then calls you back.

I have never seen a way of doing business that is productive in that manner. It sometimes takes days to get an answer. We are working to resolve it because that is the only way we have.

So I don't obviously feel that it is going to save a lot of money. On paper, maybe it does. But it also is going to hurt the productivity of that office and the service to veterans, the homebuilder and the mortgage bankers, that sit there with papers that can't be processed and closed out.

Mr. SUNDQUIST. I understand what you're saying. My only problem is—and I am not necessarily supporting it—somehow we have to find ways to cut the bureaucracy that exists, and every time somebody suggests something and we hear everybody argue "not in my back yard," it just poses a question to me of what are we going to do if we can't do those kinds of things. I am not necessarily supporting it, but I just pose the question.

Mr. KOELEMIJ. That is why, Mr. Sundquist, last week we testified before the Senate Budget Committee and our proposal was for a freeze based upon 1985 spending figures, and if that was not enough, a 10-percent across-the-board cut.

But the zeroing out of some of the programs, one of which happens to be the VA, by doing the 5 percent fee and by doing the——

Mr. SUNDQUIST. Excuse me. I'm not supporting that. I'm talking about——

Mr. KOELEMIJ. I understand that. But that is our answer to the effort to cut the budget deficit, to do it more across-the-board rather than picking on certain subjects and doing away with them.

Mr. SUNDQUIST. I would vote for that.

The question, Mr. Davis, I have of you is on page 7 of your testimony. If we had gotten this earlier, perhaps I could have asked Mr. O'Toole this question regarding vendee mortgages.

As I understand your testimony when a veteran sells the property and then the second owner tries to sell the property, under existing law that is still guaranteed by the VA; is that correct?

Mr. DAVIS. I'm not sure it is. Perhaps Mr. Spiller can respond to that better.

The question is, does the insurance carry over to the second borrower?

Mr. SUNDQUIST. On page 7 of your testimony you say that you recognize Congress established a vendee fee and you recommend altering these features to the vendee mortgages. In other words, as I understand it, what you're saying is the VA should not guarantee the second owner, on the nonveteran; is that a correct understanding of what you said?

Mr. DAVIS. No; I think what we're saying is, in effect, there should not be the perks on a vendee loan where there is a direct sale by the Veterans' Administration that exists at the present time. Right now there is a reduction in the fee from the current market rate, which is 12½ percent. There is a guarantee by the VA to acquire that property back in the event of default. These are benefits that flow to the nonveteran ultimate buyer in a vendee sale.

We are not comfortable with them and we think it exacerbated the problem.

Mr. SUNDQUIST. Let me make sure I understand this.

The veteran sells it to a nonveteran; is that what you're referring to?

Mr. DAVIS. No; on a vendee sale, we have the VA having taken back the loan.

Mr. SUNDQUIST. I see.

Mr. DAVIS. The Veterans' Administration, in order to move that property and dispose of it, takes a below-market rate from the nonveteran purchaser, and at the same time guarantees that purchaser that they, the VA, will take back the loan in the event of default as an additional guarantee, which, of course, is a perk to the lender that services that loan.

Mr. SUNDQUIST. Now, if you don't do that, doesn't that make it harder to unload that property?

Mr. DAVIS. Well, I can't speak for the Veterans' Administration. We submit that perhaps there isn't a need for additional perks. We are not satisfied that the guarantee to repurchase under an ultimate foreclosure on the nonveteran is a perk that is necessary and perhaps is costly. We are not satisfied that the 12½ percent rate that currently exists ought to be available to a nonveteran. Perhaps a blend between the market rate and the VA rate, but not the same that a veteran ordinarily would have available to him.

Mr. SUNDQUIST. Thank you. One last question.

Do you all meet with Mr. O'Toole and have the best minds in the country when it comes to real estate—do you all meet and try to help him and assist him in unloading all this property we have? Do you have any structure, formal or informal, to help us solve the problems we have?

Mr. SPILLER. I could respond to that. We met with Mr. Walters and Bob O'Toole about a month ago, and we jointly agreed to put together a small task force to work with them to begin to look at some of the foreclosure problems and some of those costs and the length of time that it takes to do a foreclosure, because that is wherein may lie a lot of this expense that the VA is now burdened with. We will be working with them on this for the next 90 days.

But, in addition to that, we have an ongoing close relationship, a committee and staff that meets constantly. We are specifically looking at some of this.

Mr. SUNDQUIST. I would encourage Mr. Walters and Mr. O'Toole to utilize the expertise of these three organizations.

Mr. DAVIS. Mr. Sundquist, perhaps you may not know, the National Association of Realtors has a VA-FHA monitoring network which was installed in our realtor family at the request of the Veterans' Administration and the FHA to assist them in addressing problems like this. We have a continuing dialog. Mr. O'Toole shared some information and facts with us in our last meeting in Cincinnati. This is an ongoing process and I think it has been helpful.

Mr. SUNDQUIST. Thank you.

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut, Mr. Rowland.

Mr. JOHN ROWLAND. Thank you very much, Mr. Chairman. I am glad to see the back door tax chronology has taken hold.

Mr. Davis, you make a substantial statement on page 12 with regard to prior approval home loans. You indicate that it is estimated that between 25,400 and 33,876 VA prior approval loans would be lost as a result of the increased fees.

Maybe more out of curiosity than anything else, would you explain where the assumptions came from in the determinations, and also the reasoning perhaps?

Mr. DAVIS. If I can, Mr. Rowland.

These were put together by our economics and research department and I, like you, don't always understand their numbers. But let's see if I can do the best possible.

In looking at the 5-percent user fee, anticipating the impact it would have on housing expense, gross monthly income, housing expense, and net monthly income, trying to determine what portion of the five quintiles we point out in our example in the addendum, we believe we are going to lose the bottom two of those quintiles, Mr. Rowland, as a result of the 5-percent user fee increase. That represents somewhere between 30 and 40 percent of the total marketplace in the prior approval sector.

We can't give you automatic approvals because we have no real hard numbers on those, so we have estimated 5 percent of those people will probably be lost in this 5-percent user fee process.

Does that explain how we got there?

Mr. JOHN ROWLAND. Yes, it does. I think it's probably even conservative. I think the whole program would be wiped out. But I appreciate——

Mr. DAVIS. The bottom line that we are concerned with are two elements. One, of course, is pushing the veteran out of the entitlement, potentially. Of course, the other is in response to the need for revenue enhancement. What does that do to the gross national product? We think we have made a fairly strong case as to the ultimate loss in gross national product using our 30 to 40 percent scenario of loss of veterans under the prior approval program.

Mr. JOHN ROWLAND. I think it is a very substantial statement and well backed up. I think it is something that should be talked about.

Another question that comes up through these discussions: Would the lenders be willing to loan user fees on top of the house loan without additional security? I know there is an indication they would be willing to do the loan. Would there have to be additional security to do that, in your opinion?

Mr. DAVIS. In my opinion? Well, I think Mr. O'Toole and Mr. Spiller both commented on this. We can see it coming, Mr. Rowland, in addition to those portions of the closing costs that are currently being folded into either the purchase price or the loan or both.

Discount points, which the seller is being asked to absorb, which in many cases is being folded into the purchase price or the loan or both, we have just exacerbated that problem by 5 percent if this recommendation goes through.

There comes a point of no return. Does the seller say, "Hey, look, I've had it; enough is enough." If we're dealing with the equivalent

of 12 to 13 discount points, folding in all of these costs, based upon a full, no-down-payment loan, then we're talking about 12 percent on top of what otherwise would be the gross selling price. It's just outrageous. It's absurd. We know this is going to happen, and we know that as a result we're going to lose a lot of people in the process.

Mr. JOHN ROWLAND. I think it is also important to point out—and I will make the point—because I know specifically in the State of Connecticut, I think it was just last year that the State legislature passed a new State conveyance tax on top of all those figures, and I am sure there are other States moving in that direction, which adds to the total burden.

Thank you very much.

Mr. SHELBY. Thank you, Mr. Rowland.

On behalf of the subcommittee, I want to thank you gentlemen. You were very informative here and speaking your mind. You know what you're talking about. I want to tell you, I know, like the gentleman from Connecticut and the gentleman from Tennessee, all of us are concerned with the deficits. But this seems to be not the place to start it. There has got to be other ways. I have to believe that this is just a ploy to do something else.

Thank you, gentlemen.

Mr. SPILLER. Thank you.

Mr. DAVIS. Thank you, sir.

Mr. KOELEMIJ. Thank you very much, Mr. Chairman.

Mr. SHELBY. Our next panel will be Mr. Richard Johnson, director of legislative affairs, Non Commissioned Officers Association of the United States; Mr. Rick Heilman, Disabled American Veterans; Mr. James Magill, assistant director, National Legislative Service, Veterans of Foreign Wars; Mr. Joseph Miller, assistant director, National Legislative Commission, The American Legion; and Mr. Richard Weidman, Director of Government Relations, Vietnam Veterans of America.

Gentlemen, please come to the table. Your written testimony will be submitted in the record in its entirety, without objection. If you would briefly summarize your remarks, it would give us the opportunity to ask you any questions that we might have.

Mr. Johnson, do you want to start it?

STATEMENTS OF RICHARD W. JOHNSON, JR., DIRECTOR OF LEGISLATIVE AFFAIRS, THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA; RICK HEILMAN, DISABLED AMERICAN VETERANS; JAMES N. MAGILL, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES; JOSEPH E. MILLER, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION; AND RICHARD F. WEIDMAN, DIRECTOR OF GOVERNMENT RELATIONS, VIETNAM VETERANS OF AMERICA

STATEMENT OF RICHARD W. JOHNSON

Mr. JOHNSON. That would be fine, Mr. Chairman. I thank you.

Mr. SHELBY. We welcome you to the subcommittee.

Mr. JOHNSON. Thank you, Mr. Chairman.

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I am not going to read my statement.

Mr. SHELBY. Fine. That will save time.

Mr. JOHNSON. Very briefly, one of the things that has been missed this morning—as a matter of fact, one of the only things—is that there are a wide variety of alternatives out there to a 5-percent home loan origination fee paid to the Veterans' Administration available to the veterans themselves. One of which I have outlined in my statement is private mortgage insurance, which currently is an up-front fee of one-half of 1 percent of the loan value, followed by a quarter percent for each year the loan runs until the mortgage distribution reaches the 80–20 and, in some cases, 70-30 percent ratio.

As I pointed in the statistics that I have included in my prepared statement, for veterans who can afford to use private mortgage insurance, there is a substantial front savings which amounts to a couple of thousand dollars. For those veterans who would normally finance the points, there can be a savings of up to $14,000 or $15,000.

Because these alternatives are out there, we do not believe the Veterans' Administration has been able to project any real figures on continued participation in the program. At the same time, because these alternatives are out there, those veterans most likely to continue participation in the VA program are those that are causing—I don't want to say causing the problems in the program now because the program remains structurally sound—but it is on behalf of those veterans in those lower income categories, who are a little overextended, that the program has required annual outlays for the past couple of years.

I think if we do change this program we will only invite those veterans to become a majority market in the VA sector, and thus, it would further exacerbate the problems that we have.

With those comments, Mr. Chairman, I thank the committee for its indulgence and stand ready to answer any questions you may have.

[The statement of Richard Johnson appears at p. 95.]

Mr. SHELBY. Thank you.

Mr Rick Heilman, Disabled American Veterans. Mr. Heilman.

STATEMENT OF RICK HEILMAN

Mr. HEILMAN. Thank you, Mr. Chairman. I will not read my statement but just make a few comments.

Actually, given the sentiments expressed this morning, I really could just rest on what has been said, both by members of the subcommittee and the witnesses, with the exception of Mr. O'Toole and his staff. We also appreciate the position that he is in in terms of coming over here and presenting the administration's position. They sort of looked like the "Maytag repairman" there for a while. [Laughter.]

But clearly, Mr. Chairman, the proposal for a 5-percent user fee is nothing more than an OMB numbers game type of thing, made with obviously no thought to the impact on the program's integrity and the beneficiaries of the home loan guaranty program.

Yes, sir?

Mr. SHELBY. If you would yield to me—I'm sorry to interrupt—you said OMB made this proposal with no thought to the integrity of the program. Someone else mentioned this morning that there was a lot of thought in it— that maybe this is a back door approach to destroy the program.

Mr. HEILMAN. That's a very good point, sir. Also, someone said that for an administration that has not asked for any tax increases during the coming year, this certainly is a tax. And you are well aware of the proposed tax on disability compensation, which is another proposal.

But at any rate, the user fee certainly would not benefit the program at all or the beneficiaries. The estimate of 220,000 people participating in fiscal year 1986 with this type of fee is grossly exaggerated. We feel it, in fact, would keep many, many veterans from being able to purchase their homes.

Let's not forget that 75 percent of the people who are using the VA loan guaranty now are Vietnam veterans, post-Vietnam veterans, and active duty service people. These younger veterans certainly need this assistance to realize the American dream of owning their own home. So we are opposed to this, Mr. Chairman, and we appreciate the fine nonpartisan stance that has been taken by you, and you, Mr. Smith, and all the members of the subcommittee.

You asked earlier who speaks for the veteran. Well, aside from us in the veterans community, there is no doubt in my mind and the DAV's mind that this subcommittee and the full committee in the House certainly speaks for the veteran, and have always done so, in the finest of nonpartisan traditions.

Thank you.

[The statement of Rick Heilman appears at p. 103.]

Mr. SHELBY. I want to commend all of you for representing the various service organizations because you really truly speak for the veteran. This is my seventh year on this committee and I know you speak and work for the veteran. What is bothering me is why the Administration isn't speaking for the veteran.

Mr. Magill, assistant director, National Legislative Service, VFW. Mr. Magill.

Your written testimony will be made a part of the record. If you would please sum up your remarks, it will give us time for questions.

STATEMENT OF JAMES N. MAGILL

Mr. MAGILL. Thank you for the privilege of presenting the views of the Veterans of Foreign Wars.

We continue to consider the VA Home Loan Guaranty Program one of the most successful and beneficial programs available to veterans. We also believe it should continue to enjoy the full support of the Congress, which it appears it has in this hearing, and also the Administration. Of course, the Administration is calling for these two proposals which we feel will severely undermine this highly successful program.

Of course, we are opposed to the five-percent increase. As you know, we were opposed to the establishment of the user fee. We

were opposed to the one-half of 1 percent to a full 1-percent increase , so it should be no surprise that we are opposed to a 5 percent fee.

One thing that has not been brought out that I would like to mention, in my statement I mention that most families nowadays can afford the high mortgage payments because they have both parties working. Unfortunately, a lot of people cannot afford a down payment. This is what has made the VA Home Guaranty Loan Program a success. We view the user fee as a form of down payment.

We also oppose the veteran having to negotiate the rate that he has to pay. We believe that this will increase the points that will have to be paid. It should be noted that H.R. 1, the Federal Housing Act of 1985, is calling for the repeal of the negotiated interest rate with the FHA.

This concludes my statement and I will be happy to answer any questions you may have.

[The statement of James N. Magill appears at p. 107.]

Mr. SHELBY. Thank you.

Our next panelist will be Mr. Joseph Miller, assistant director, National Legislative Commission, The American Legion. Mr. Miller, please sum up your remarks. Your written statement you know, has been made a part of the hearing record, without objection.

STATEMENT OF JOSEPH E. MILLER

Mr. MILLER. Thank you, Mr. Chairman.

I think there are a great many things that have been said here today. Some of the things that have come out is that Bob O'Toole and his staff have provided remarkable service under extremely adverse conditions over a variety of years. The VA Home Loan Program has undergone some drastic changes over the last 3 or 4 years which has undermined its ability to survive. The sale and continued forced sale of its loan portfolio has prevented it from meeting its obligatons and, hence, it has had to go to Congress and ask for money.

It is interesting that over this period of time the sale of the loan portfolio has generated about $1.5 billion, and the VA will, by the end of this year, require somewhat less than that, depending on the number of foreclosures that continue to take place.

Obviously, if the VA had not sold off its portfolio, if it had a vigorous direct loan program it would still be viable. In fact, we feel the program is no longer structurally sound because of the requirement that the VA get rid of its portfolio loans.

It goes without saying that we reject the 5-percent user fee, although I must say we reject it for a variety of reasons, one of which has not been mentioned here, and that user fee actually will contribute to the deficit. We can to elaborate on that later on.

We also reject as out of hand the proposal that would terminate the VA Administrator's authority to set the rate on VA guaranteed loans. The argument that has been advanced in support of that proposal is that the veteran would be able to negotiate with the mortgage company. Mr. Chairman, we submit there would be no

negotiation. The mortgage company would say "this is the rate and that's it." The veteran would then be free to either have a loan or not have a loan. We don't see that as a particularly desirous negotiation to have to undergo.

Part of the purpose of the VA Home Loan Program is to provide some protection to veterans. Removing the Administrator's authority to set the rates removes part of that protection.

I would be happy to respond to any questions that you may have, and thank you for the opportunity to present our views.

[The statement of Joseph E. Miller appears at p. 111.]

Mr. SHELBY. Thank you, Mr. Miller.

Our next panelist is Mr. Richard Weidman, director of Government relations, Vietnam Veterans of America. Mr. Weidman, your written testimony will be submitted for the record, without objection. You may sum up your remarks.

STATEMENT OF RICHARD F. WEIDMAN

Mr. WEIDMAN. Mr. Chairman, the Vietnam Veterans of America extends our thanks to you and this committee for allowing us to present our views here this morning.

Just a very quick summary. We would be unalterably opposed to the Administration's proposal for the 5-percent user fee. I want to thank you and congratulate you, Mr. Chairman, for your strong and immediate response to the President, well before this hearing.

We believe that the VA home loan really has to be seen as a vital readjustment benefit. We would point out to you and to the subcommittee, Mr. Chairman, that over 75 percent of the users of this program are Vietnam era veterans, post-Vietnam veterans, or folks who are still on active duty, most of whom served during the Vietnam era.

It has to be seen in context with the rest of the programs, particularly with employment initiatives. We find that in this program the lack of solvency is partly because the program was hamstrung, as my colleague Mr. Miller has just pointed out, by this very Administration, and second, because of economic policies and conditions created by this administration, which are putting folks in kind of a bind, that they aren't able to make their mortgage payments on time and are going into default. To then blame the veteran for this situation is akin to blaming anything you don't like about the war upon the warrior. We think that is wrong, to treat people who served this country faithfully in such a manner. So while we appreciate the difficult position Mr. O'Toole is in, as I noted in the press conference that we had just over a month ago, this rests squarely on David Stockman. I would urge, Mr. Chairman, you consider bringing that gentleman David Stockman before this committee so that we aren't constantly put in the position of having to ask hard questions of someone who we have a great deal of respect for and who is really quoting numbers by folks, that you may have less confidence in their credibility.

Thank you very much, Mr. Chairman.

[The statement of Richard Weidman appears at p. 118.]

Mr. SHELBY. First of all I want to thank all of you for speaking up in behalf of veterans. I think the members of the Subcommittee share your views. Somebody has to fight for the veteran.

You mentioned the head of OMB, Mr. Stockman who has appeared before other committees on the Hill. Frankly, I don't believe he wants to come before this Subcommittee to explain his recommendations regarding the dismantling of the Veterans' Administration's Home Loan Guaranty Program, among other things. That's why he is not here. We have certainly invited him before, and we will invite him again. If we do, I am sure this group would like to have a chance to rebut whatever he says.

Thank you, again.

The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I want to commend the gentlemen from the various veterans organizations again for their patience in waiting through a very fine hearing. Unfortunately, I had to leave midway through it. I am very concerned about a VA outpatient clinic in south Jersey and during the hospitals and health care hearing I wanted to get my 2 cents in on the need for that clinic.

I do have a couple of very short questions. Mr. Miller, you seem to be pointing in your written testimony to the sale of the VA's loan portfolio as one of the causes of the present deficit in the Loan Guaranty Revolving Fund. Would you suggest returning to the system of the VA maintaining a loan portfolio?

Mr. MILLER. Mr. Smith, we are not only alluding to that, we are stating categorically that if you look at the figures and you look at the longevity of the VA Home Loan Program, what has happened to foreclosures in the past and how that program was able to survive, the VA has had a history of being able to bounce back because it had a viable direct loan portfolio that could transfer money to the Home Loan Revolving Fund.

If you take a leg of the program away, it becomes pretty evident that the other leg can't necessarily stand by itself. We would suggest that more than just returning to a direct loan program, that perhaps a vigorous program could be instituted for the VA to go out and make those direct loans. We have a number of suggestions which we have passed on to the committees over the years.

Mr. SHELBY. Excuse me, if the gentleman would yield.

Mr. CHRISTOPHER SMITH. Yes, I would be happy to yield.

Mr. SHELBY. If you have additional comments, any of you, we would appreciate them. We will weigh anything. We want the program to work.

I yield back.

Mr. CHRISTOPHER SMITH. I did notice in your testimony that you noted there was about a $285 million difference between projected savings and what actually occurred. I think that is significant.

Mr. MILLER. Well, part of the problem is that OMB tends to take gross numbers and use them as if they're going to materialize in a gross manner. But, you know, we all have incomes and we have gross incomes and net incomes. The OMB, it seems to us, takes the gross figures and forgets that there is going to be a net result down the line somewhere.

The sale of the portfolio did not realize as much money as had been projected. At the same time, if you look at how much money was going from the sale of that portfolio, it just went into general revenues. Basically what the VA has had to do, they are having to now go back to the Congress and say "We gave you $1.5 billion and we need some of that money back."

So it is a short-term view on that program and not a long-term consideration of the overall effect.

Mr. CHRISTOPHER SMITH. Thank you.

One final question to Mr. Magill. If the maximum interest rate on guaranteed loans were to be negotiable, what effect do you believe it would have on the participation by veterans in the Home Loan Guaranty Program?

Mr. MAGILL. We don't think it would be in the veterans' best interest. As I stated in my prepared statement, the VA just guarantees a maximum. Their rate is the maximum that can be charged. I believe Mr. Miller brought it up, or somebody, that there will be no negotiation. The realtors set the rate, and if you want to pay the rate, then you will get the loan. If you don't, you do not.

We don't foresee a veteran being able to go out and negotiate a rate that is less than what would be the guaranteed rate.

Mr. CHRISTOPHER SMITH. Thank you very much for your comments. I appreciate your testimony.

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut, Mr. Rowland.

Mr. JOHN ROWLAND. Thank you very much, Mr. Chairman. I don't have any questions. I just want to thank the various organizations for your persistence and your dedication. I want you to know that it will take a little while but we'll get through this together. Just keep on that positive track and offering alternatives and we'll be in good shape in the next couple of months.

Thank you.

Mr. SHELBY. Gentlemen, let's kill this thing. I think I said it's dead on arrival. Let's make sure it is.

Thank you for coming.

[Whereupon, at 12:05 p.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF ROBERT M. O'TOOLE
DIRECTOR, LOAN GUARANTY SERVICE
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
MARCH 5, 1985

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program. I have with me today Thomas W. Maher, Assistant Director for Property Management, Raymond L. Brodie, Assistant Director for Loan Management and James P. Kane, Assistant General Counsel.

A period of economic stability has permitted VA to keep the interest rate on guaranteed home loans within the 12½ percent to 14 percent range through all of 1984. This is up slightly from the 1983 range of 11½ percent to 13½ percent and down significantly from the 1981-82 levels. The current rate of 12½ percent has been in effect since November 21, 1984. During Calendar Year 1984, VA issued 431,874 certificates of reasonable value and 107,090 certificates of commitment to guarantee loans.

There is a continuing emphasis, Mr. Chairman, on improving productivity of field stations. In 1984, over 47% of all VA guaranteed loans were originated on the "automatic basis" whereby loan originators rather than the VA, review the income and credit of the applicant prior to loan closing. We will continue to streamline and improve processing procedures to allow for approval of GI loan applications in a manner which is quick and efficient while still protecting the interests of veterans and the Government.

During the year ending January 1985, the total number of Loan Guaranty field station employees decreased from 1,997 to 1,857. We expect to be able to continue to effectively perform the mission of the program with our currently authorized staffing levels.

VA IMPLEMENTATION OF 1984 LEGISLATION

One important change in the Loan Guaranty program was the enactment last year of Public Law 98-369 setting forth guidelines under which VA would continue to acquire properties securing VA guaranteed loans when it was in the Government's best interest to do so. Essentially, the legislation requires VA to examine the "net value" of the security property as a potential asset. The "net value" is to be determined by subtracting the estimated costs of acquiring, managing, repairing and reselling the property from its fair market value.

If "net value" exceeds the total loan indebtedness less the maximum amount which VA would have to pay on the guaranty, the VA will acquire the property for resale so as to recover that value and reduce the loss to the Government in that particular case. This also benefits the veteran, because the net value determines the amount specified for credit against the loan indebtedness, and prevents a future deficiency judgment or other indebtedness being established against the veteran based on the prices which prevail at distress foreclosure sales.

If "net value" does not exceed the difference between total indebtedness and the amount payable under the guaranty, the VA will pay the guaranty claim and allow the holder to dispose of the property. The legislation will reduce the number of properties conveyed to the VA and the expenses associated with management and resale. Field stations are processing foreclosures in conformance with the new formulas.

Another recent development was the enactment of Public Law 98-223, which provides authority to guarantee manufactured home loans for longer terms and at lower rates, similar to those available for conventionally built homes under 38 U.S.C. 1810. In order to qualify, the manufactured home must be permanently sited on land owned by the veteran, and must be treated as real estate under state law. We hope to see increasing activity under this new authority.

LOAN DEFAULTS: SERVICING DELINQUENT LOANS

Mr. Chairman, we are continuing to experience a large number of GI loan defaults. During Fiscal Year 1984, new defaults averaged 13,199 per month, compared with 13,564 in FY 1983. Defaults reported appear to be remaining stable at relatively high levels.

As a result of the continued high level of new defaults reported, there were 104,794 defaults pending as of December 31, 1984, an increase of 5.7 percent over the 99,061 defaults pending as of December 31, 1983. This in turn resulted in an increased number of foreclosures and claims. We paid 20,189 claims in Fiscal Year 1983. This increased 16 percent, to 23,355 claims paid in Fiscal Year 1984.

Hopefully, a continuing recovery in the economy will translate into a decrease in defaults reported, foreclosures and claims paid in the near future.

Although the holder of a GI loan has the primary responsibility for servicing the delinquent loan in default, it is VA policy that no GI loan should be foreclosed or otherwise terminated unless such action is justified. Consequently, when a new default is reported to VA, our regional offices promptly attempt to contact the borrower by letter, mailgram, telephone and through field visits to the property. In view of the continuing high rate of defaults, we have regularly emphasized to our field stations the importance of personally contacting delinquent veterans in order to assist them to reinstate their loans and retain their homes if

at all possible. As a result, these personal contacts increased 75 percent to 153,039 in Fiscal Year 1984. Personal contacts include financial counseling sessions, telephone calls, office interviews and field visits. In Fiscal Year 1983, VA made 87,441 personal contacts with delinquent veterans.

We have also been emphasizing the refunding of delinquent GI loans, in order to provide the delinquent veteran with an additional opportunity to reinstate the loan. Where circumstances warrant, VA refunds delinquent loans when the loan holder has determined that it would not extend further forbearance. In Fiscal Year 1983, VA refunded 179 loans. This increased 216 percent to 565 loans refunded in Fiscal Year 1984.

To further aid in our efforts to assist delinquent veterans, we are moving ahead with plans to provide direct on line access to GI loan records. When implemented, up-to-date loan data on individual default cases will be available in seconds via display terminals. The full implementation target date for loan servicing is December 1986. This will enable loan guaranty personnel to service defaults without reference to loan folders and respond quickly to inquiries from veteran borrowers. Other anticipated benefits include reduction in the flow of papers, and files and improvement in the quality and timeliness of data input. Rapid access to the database will also enable Central Office to closely monitor the operations of our Field Stations.

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PROPERTY MANAGEMENT

Although we have seen continuing high levels of foreclosures completed during the past 2 years (an average of 2,360 per month during 1983 and 1984), we have been able to make encouraging progress with our property sales results during 1984 and expect to accelerate sales further during 1985 to reduce our inventory and to minimize the demands on the Loan Guaranty Revolving Fund. In March 1984, we reached our highest number of properties in title: 22,316. By the end of the fiscal year, we had reduced that figure to 21,895, and as of the end of January, we had achieved a reduction to 21,585, with an additional 11,546 properties pending acquisition by VA due to the continuing high foreclosure level.

Our FY 84 sales were 18% higher than FY 83 sales, and somewhat greater than FY 81 and FY 82 sales combined. During FY 85 to date, we have sold 8,273 properties, a figure 30% higher than the number sold during the first four months of FY 84. In January 1985, our field stations sold 2,478 properties - the highest monthly sales figure since September 1966.

In addition to making moderate progress in reducing our property inventory in the face of high foreclosure levels, we have implemented two provisions of the Deficit Reduction Act of 1984: the requirement that VA charge a 1% funding fee on vendee loans and the requirement that at least 25% of our properties be sold for cash during FYs 85, 86 and 87.

For the first four months of FY85, the funding fees collected on vendee loans amounted to $3,168,137.55. For the fiscal year to date, we have doubled our previous percentage of cash sales to 20%. We are confident that, as program participants become more aware of our sales incentives introduced during 1984 for cash sales, we will be able to meet and probably exceed the 25% cash sales requirement.

We took several steps to promote cash sales as well as overall sales during 1984. Continued emphasis on these program changes should help us to accelerate the downward trend in our inventory during 1985.

- In April and May, we sent a Property Management Task Force to 7 of our field stations which then had almost 50% of our inventory. The Task Force met with both private sector brokers and field station staffs to focus attention of property sales. We have seen a marked improvement in sales at those stations.

- Reasonable offers--below stated list prices - are now invited on all properties on the market for more than 6 months, in order to promote a bargaining-type atmosphere on our older inventory properties.

- Sales commission bonuses of up to $500 are offered on older and lower-priced properties, in order to focus more broker attention on these hard-to-sell properties.

- Discounts of 10% off the list price are offered to purchasers who pay all cash.

- We pay reasonable loan discount points; where outside financing requires it.

- We held a test auction of 200 hard-to-sell properties in Detroit in October. It was the largest real estate auction in Michigan history. We are going forward to use this technique during 1985 in other locations where we have difficult inventory problems.

The continuing improvements in our Property Management Sales Activity over the past five years are reflected in the following figures:

Fiscal Year	Properties Sold
1980	11,822
1981	10,671
1982	10,857
1983	18,634
1984	22,235

LOAN ORIGINATIONS IN 1984

During Calendar Year 1984, the VA guaranteed 209,841 loans, over 65 percent of which were made without a down payment from the veteran purchaser. These no downpayment loans had an average purchase price and loan amount of $59,564. For those veterans who obtained loans with a down payment, the purchase price

averaged $82,514 with an average loan amount of $72,257. Veterans obtained 11,938 manufactured home loans in 1984. The average purchase price for manufactured homes was $21,753 with an average loan amount of $21,020. The VA home loan program has assisted over 11.4 million veterans to obtain housing since the program was enacted in 1944. Mortgage credit totaling almost $224 billion has been infused into the economy; much of these funds would not have been available without the benefit of this GI Bill program. Over $82 billion worth of these loans have been repaid in full as of ~~last~~ year.

REVOLVING FUND: PROPOSED NEW LEGISLATION

The benefits of the VA Loan Guaranty program are possible for America's veterans because the Congress established the Direct and Loan Guaranty Revolving Funds. In recent years the Loan Guaranty Revolving Fund, which provides moneys for all loan guaranty operations except administrative expenses, has been substantially depleted. A supplemental appropriation of $100 million (Pub. L. No. 98-3[illegible] and an appropriation transfer to the fund of $160 million were both needed in Fiscal Year 1984 in order to enable the program to meet its obligations in that year. Additional funding was provided by Pub. L. No. 98-473, which appropriated an additional $306.6 million for Fiscal Year 1985. Current budget projections show that the Fund should now be able to meet program needs for the remainder of the current fiscal year, but would need additional appropriations of $404.6 million for Fiscal Year 1986 and additional amounts in each year through 1990 unless new sources of revenue are found.

As part of a government wide policy to charge origination fees for Federal credit programs and maintain the solvency of these programs, the administration is forwarding a draft bill to increase the funding fee authorized under section 1829 of title 38, United States Code from the current one percent to five percent, to be deposited directly into the Loan Guaranty Revolving Fund. The increased fee would be effective for all loans closed after September 30, 1985. The entire fee could be financed over the life of the loan. Purchasers of VA-owned properties with vendee loans would have the option of paying the five percent fee or paying a one percent fee, making a five percent downpayment and providing private mortgage insurance on the balance.

There are three aspects of the proposed increase in the funding fee that I would like to discuss:

- First, as you know, the VA Home Loan Guaranty program enables an eligible veteran to buy a home with no money down, in contrast to private mortgage insurance which requires a down payment of at least 5%. Because the fee may be financed along with the mortgage amount, veterans will still be able to buy a home with no down payment or money up front. Preserving this essential feature means that this program will continue. In fact, it's still a better deal than FHA or private mortgage insurance, so that veterans can be expected to continue to participate

fully. When FHA fees were raised from 1/2 percent per year on the unpaid balance to 3.8% up front in 1983, there was a fear that demand would drop off. This does not appear to have happened.

- Second, all service-disabled veterans are now, and will continue to be, exempt from loan origination fees.

- Third, in 1986 the 5% fee will take in $200 million more than the estimated 1986 shortfall in the Loan Guaranty Revolving Fund. This is justified by the fact that: (a) revenues have not been sufficient to cover foreclosure costs in any years since 1978; (b) the fund has lost over $1.7 billion borrowed from the Treasury since 1951, as well as $567 million appropriated since 1984, (c) this level of collections is needed so that the fund can be self-supporting when market conditions are not as vigorous as they are expected to be in 1986; and (d) all moneys collected would remain available for use in insuring that this veterans' benefit remains viable.

Fairness requires that purchasers of VA acquired properties who obtain financing from VA be required to bear costs which are comparable to those imposed upon veterans using their earned benefits. If, however, vendee purchasers are willing and able to make at least a 5 percent down payment, and also obtain at their own expense private mortgage insurance for the benefit of VA, the

risks to VA on making the vendee loans have been significantly reduced. In view of such reduced risk, and the fact that the borrowers will be paying for private mortgage insurance, we consider it equitable to permit these borrowers to pay the current one percent fee rather than the increased fee.

The Administration's draft bill would also repeal the VA's authority to set the maximum interest rate which veterans may pay on VA guaranteed home loans currently contained in 38 U.S.C. §1803~~(c)~~, and manufactured home loans contained in 38 U.S.C. § 1819(f), and allow the rates to be negotiated by the veteran

[illegible] at any rate agreed upon by the borrower and lender.

Under the draft bill, the veteran buyer, the seller, and the lender can negotiate the mortgage rate. This the transaction can be tailored to fit the needs and circumstances of the parties involved, and will prevent veterans from losing the opportunity to make a purchase when market conditions change as has happened under the fixed ceiling.

SPECIALLY ADAPTED HOUSING GRANTS

Mr. Chairman, I am sure the Subcommittee would also be interested in receiving information about the Specially Adapted Housing Program for the severely disabled veterans. In Calendar Year

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1984, 396 veterans eligible for the maximum $32,500 Specially Adapted Housing Grants were approved for such grants. A total of 8 direct loans were made to veterans in connection with these specially adapted housing benefits. Through Calendar Year 1984, a total of 19,135 veterans have been approved for grants totaling over $306 million. In October 1980, Public Law 96-385 was enacted which authorized grants up to $5,000 to blind veterans and those veterans who had lost or lost the use of both hands to acquire adaptations for their homes. Through Calendar Year 1984, 563 veterans have received such grants averaging $4,585 each.

[illegible]eased by Public Law 98-543. Effective [illegible], Adapted Housing Grant was increased to $35,500 and the Special Housing Adaptations Grant was increased to $6,000.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions that you or Members of the Subcommittee may have.

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB)

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

IMPACT OF THE FISCAL 1986 BUDGET

ON THE

VA HOME LOAN GUARANTY PROGRAM

MARCH 5, 1985

Mr. Chairman and Members of the Subcommittee:

My name is John Koelemij (Kool-am-I) and I am a home builder from Tallahassee, Florida. I build both single family and multifamily homes and am an owner of rental properties. I am submitting this statement on behalf of the 130,000 members of the National Association of Home Builders (NAHB), who employ over 3 million workers. NAHB is a trade association of the nation's homebuilding industry, of which I am President. Almost 20% of our builder members are involved in building housing financed under the Veterans Administration (VA) housing programs.

I am pleased to present our views on the VA Home Loan Guaranty Program, and the Administration's FY 86 budget proposals including the increase in the VA fee, the elimination

of the administratively set VA interest rate, and the consolidation of VA offices. In addition, I would like to comment on two legislative initiatives, including your own proposal, Mr. Chairman, (H.R. 756) to increase the VA loan guaranty maximum and the Senate bill (S. 9) to provide for adjustable rate mortgages (ARM's) for the veteran homebuyer.

VA HOME LOAN GUARANTY PROGRAM

First, I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty Program in general. VA housing programs have given four generations of veterans and their families the opportunity not only to obtain homeownership but to put down roots and establish community ties. Since the inception of the program, the VA has guaranteed over 11.3 million loans with a value of over $230 billion.

Throughout its history, the Veterans Administration has operated a very successful guaranteed home loan program that has achieved and continues to achieve the social policy goals spelled out by Congress. Since the loan guaranty revolving fund was created in 1962, the program operated without any additional cost to the taxpayer for over 20 years through fiscal year 1983. In fiscal year 1984, for the first time, Congress appropriated money for the depleted Loan Guaranty Revolving Fund. Thus, aside from the last two years, the VA guaranteed home loan program has been self sufficient.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB has

always supported the VA Home Loan Guaranty Program and believes the VA to be one of the best federal agencies in terms of service to the consumer and to the home builder.

ADMINISTRATION'S FY 86 BUDGET PROPOSALS

VA User Fee Increase

The Proposed Fee as a Tax

Mr. Chairman, it is clear that we are preaching to the choir with respect to the Administration's FY 86 budget proposal to increase the user fee on the Veterans Administration Home Loan program from one percent to five percent. I share your view, as stated in your January letter to the President, that a five percent fee "....would serve to impose a selective tax burden on home buying veterans -- a burden not shared by the general population." The fee increase simply represents a new tax on veterans.

NAHB views this fee, as well as the user fee increases proposed for FHA and GNMA and the new fees imposed on activities of FNMA and FHLMC, as part of a continuing effort by the Administration to restrict essential federal credit programs. We oppose all these fees as taxes on housing.

Administration Proposals are Contrary to Longstanding Federal Policy

Congress spoke very clearly in 1944 when authorizing the GI Home Loan Program as an entitlement program to enable veterans to obtain mortgage credit. Over time, Congress has acted wisely to increase the entitlement, expand the category of eligible veterans, and extend the period during which the

entitlement could be utilized. There has been a bipartisan commitment over the past 40 years to help veterans purchase their own homes; it should take no less than explicit congressional action to retreat from this policy.

The Proposed Fee Unfairly Penalizes Future Borrowers

To avoid a $404.6 million shortfall in the loan guaranty fund in fiscal year 1986, the Administration has proposed a five percent user fee for VA guaranteed home loans. Thus, the burden of the shortfall in the loan guaranty fund would be placed on veterans who plan to purchase homes in the future. The higher user fee would effectively take away a benefit veterans have had for 40 years by unfairly asking future participants to pay for the recent shortfall.

The Proposed Five Percent Fee Will Not Produce the Projected Revenue

NAHB opposes the Administration's proposal to raise the guaranty fee from one to five percent not only because it undercuts a long-established entitlement program and unfairly calls upon future borrowers to pay for the difficulties of previous borrowers, but also because it is not likely to produce the revenue projected. In fact, the higher fee could create losses in the future.

According to the Office of Management and Budget (OMB) projections, increasing the fee will produce additional revenue in FY 86 sufficient to offset a $404.6 million shortfall otherwise projected for the Loan Guaranty Fund. This projection is not likely to be realized, however, because such a large increase in fees will cause a substantial decrease in the

volume of VA loan activity. Spokesmen for the VA have predicted that the decline in VA activity could be as great as 50 percent. If FY 86 mortgage volume were $13.5 billion with a one percent fee, $135 million in revenue would be produced. If the fee were raised to five percent and volume fell to $6.75 billion, revenue produced would amount to $337 million. While revenue would increase by $200 million, over 100,000 veterans would have been denied access to a longstanding benefit.

It is, of course, difficult to quantify the decline in VA volume precisely. It can be said with certainty, however, that a decline below $10.5 billion, as compared with $12.5 billion in 1984, would result in less additional revenue than the $404.6 million estimated by OMB. The decline in VA activity is likely to be much greater than this both because the larger fee would put homeownership under the VA Program beyond the reach of many eligible borrowers and because the larger fee would make the VA program more expensive than other alternatives.

The Fee Will Increase Future Losses

The severe economic recession of the early eighties, combined with the end of the rapid appreciation in home prices that had been associated with inflation, has resulted in unusually high foreclosure and loss rates throughout the mortgage sector. Analysis of the cause of these foreclosures and the types of loans most likely to default shows clearly that low downpayments, and negative amortization, are the

most dangerous aspects in a disinflationary environment. The borrower naturally defaults when he has no equity in the property.

Under the Administration proposal, the zero downpayment VA loan would begin negatively, at 105 percent of value. Even assuming that the property appreciates at 5 to 7 percent a year it will be several years before equity is sufficient for the Veteran to break even on a sale. Most defaults ordinarily occur in the first few years of the loan, and during this period the VA will not be well-secured. The Administration proposal could destroy the balance in the program and exacerbate the problem, not cure it.

What Are the Alternatives?

As the foregoing illustrates, the losses currently being experienced by the Veterans Administration cannot be cured by charging them to new borrowers. This merely postpones the problem to the future and, because of the lasting damage to the program, does so less efficiently than if Congress were simply to appropriate funds to cover the shortfall. Even with the five percent fee, reduced volume would create the need for an appropriation of approximately $200 million.

The proper course of action is to cover the current shortfall in the VA fund by appropriation. In addition, action should be taken to preserve the long-term viability of the program. Our preliminary analysis has provided some areas for consideration.

(1) Current losses should be minimized through effective property disposition and management.

(2) The Veterans Administration holds property with substantial liquidation value, but cannot dispose of it rapidly enough to cover current losses. Congress should explore whether there is some way that the Veterans Administration can borrow against the liquidation value of its inventory to cover at least a portion of current losses, thereby minimizing the size of the appropriation needed for FY 86.

(3) New business must be written on as sound a basis as possible, given both the entitlement nature of the program and today's disinflationary environment. The analysis of what is required should take into account the relatively good record of the Veteran borrower over the long-term, including the period from the mid-sixties to mid-seventies when price appreciation was less of a factor.

NAHB would be happy to work with the Congress and other interested groups in developing alternatives that will minimize current losses while preserving the program over the longer term.

Negotiated Rate

Mr. Chairman, also contained in the Administration's FY 86 VA budget package is a proposal to eliminate the administratively-set VA interest rate and to allow for a negotiated

rate between the buyer and the seller. As you are aware, the administratively-set rate was abolished in the 1983 Housing Act for loans insured by the Federal Housing Administration (FHA).

At our January convention, NAHB passed a resolution (Attachment A) which supports the dual system of a floating FHA rate and administratively-established VA rate to be continued for at least two more years. This will allow for the operation of the FHA floating rate to be tested over time, including times of high interest rate volatility.

If the VA's authority to set a maximum interest rate ceiling were eliminated, there would be no way to reestablish a benchmark rate if less stable interest rates returned and such a benchmark rate again became necessary.

I would also like to take this opportunity to commend the VA Administrator for his successful administration of the VA rate last year. His sensitivity to market conditions made the VA prevailing rate a true "national mortgage rate benchmark." The current system is working well, and we urge that it be continued.

Consolidation of VA Offices

Also included in the FY 86 budget is a proposal by the Administration to consolidate the VA's 59 regional offices into three offices, similar to action proposed by the Administration in 1981. Mr. Chairman, we opposed that action then and we oppose it now. While we have been told that this proposal would not disrupt loan processing activities for

veterans and builders as there would still be contact points at the various regions, I have serious questions as to the efficiency of this system and what might amount to diminished services.

Legislation passed in 1981, which NAHB supported, stated that the Administration must submit a detailed plan and justification before any administrative reorganization is implemented. This detailed justification of reorganization is to be submitted on the same day that the President submits his budget to Congress, and the proposal is not to be effective until the beginning of the fiscal year nine months later--giving Congress time to debate the issue. According to both the Senate Veterans Affairs Committee and this committee, a "detailed" justification has not been sent. This in itself should technically delay any consideration of reorganization until FY 87.

LEGISLATIVE PROPOSALS

I would also like to comment in support of two bills affecting the VA Home Loan program which have already been introduced in the Congress, including your own bill, Mr. Chairman, H.R. 756, and S.9. These bills raise the loan guaranty maximum from $27,500 to $30,000 and $35,000, respectively. S.9 would further provide for an adjustable rate mortgage (ARM) for the VA, similar to that provided under a demonstration program for FHA in the 1983 Housing Act.

Loan Guaranty Maximum

Attachments B and C to my testimony show the need to increase the loan guaranty maximum. Since 1974, the sales price of new single family homes has increased at a much greater rate than the maximum loan guaranty. The median sales price of a new home went from $35,900 in 1974 to $79,900 in 1984, a 123% increase. The loan guaranty maximum increased only 57% in the same amount of time--from $17,500 to $27,500. Comparing the NAHB 1985 new home sales estimate of $85,100 to the 1980 figure of $64,600, the last time the loan guaranty was raised, new home prices will have increased over 32 percent. (Attachment B).

The VA Loan Guaranty program, of course, is not isolated from price increases. The average sales price for new homes built with a VA loan guaranty increased from $30,305 in 1974 to $77,003 in 1984, an increase of over 154 percent--greater than the percent increase for new home sales in general. Average loan amounts for new housing have climbed by 146 percent during this same period. (Attachment C)

Given the substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount is well justified.

You may want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise. We would also like to

see a formula established to provide differentials for high cost housing areas, similar to FHA.

Adjustable Rate Mortgages

Adjustable Rate Mortgages (ARMs) have proven to be a valuable tool in the market place. We would basically support the concept of an adjustable rate mortgage for the VA as an additional mortgage instrument for the veteran homebuyer.

We feel, however, that the one percent interest rate increase limitation per year in the Senate bill should be made more flexible. FHA's limited experience to date seems to indicate that there is little investor interest in loans having this provision. Most conventional mortgages have a two percent interest rate cap. This legislation should be re-drafted to allow the Administrator to respond flexibly to evolving market conditions.

CONCLUSION

In closing, I would like to emphasize our unequivocal opposition to the increase in the VA user fee for veteran homebuyers. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

ATTACHMENT A

Date: January 25, 1985
City: Houston, Texas

NAHB Resolution

Title: VA Prevailing Rate
Original Sponsor: HBA of Greater Chicago

WHEREAS, 1984 witnessed both the introduction of Federal Housing Administration floating rates and relatively stable interest rates; and

WHEREAS, legislation has been introduced that would eliminate the FHA floating rate; and

WHEREAS, the Office of Management and Budget (OMB) has instructed the Veterans Administration to eliminate the VA administered rate; and

WHEREAS, during 1984, the Veterans Administration's prevailing rate served as a national "mortgage rate benchmark" allowing builders to enjoy the best of both worlds: an FHA floating rate plus an easy and creditable way to quote rates to buyers; and

WHEREAS, if the VA administered rate were eliminated, there would be no way to reestablish a "national mortgage benchmark" if less stable rates returned and such a benchmark rate again proves necessary,

NOW, THEREFORE, BE IT RESOLVED:

- That Congress and the Department of Housing and Urban Development and other involved administrative officials be urged to allow the dual system of floating Federal Housing Administration rates and administratively established Veterans Administration rates to be continued for at least two more years so that full success of an FHA floating rate can be verified over time and during times of high interest rate volatility as well as the lower volatility which characterized 1984; and

- That the Administrator of VA be commended for the flexible, objective and market oriented administration of the VA rate during the past year and encouraged to similarly respond sensitively to market conditions in the future.

Board of Directors Action: Approved

46-682 O—85——3

ATTACHMENT B

MEDIAN SALES PRICE OF NEW HOMES SOLD/
LOAN GUARANTY MAXIMUM COMPARED TO 1974

	Median Sales Price/New Homes	% Increase Over 1974	Loan Guaranty Maximum	% Increase Over 1974
1974	$35,900	N/A	$17,500	N/A
1975	$39,300	9.5	$17,500	0
1976	$44,200	23.1	$17,500	0
1977	$48,800	35.9	$17,500	0
1978	$55,700	55.2	$25,000	42.9
1979	$62,900	75.2	$25,000	42.9
1980	$64,600	79.9	$27,500	57.1
1981	$68,900	91.9	$27,500	57.1
1982	$69,300	93.0	$27,500	57.1
1983	$75,300	109.7	$27,500	57.1
1984	$79,900	122.6	$27,500	57.1
est. 1985	$85,100	137.0	$35,000	100.0

Source: U.S. Department of Commerce, Bureau of the Census, Series C-25; Compiled by NAHB.

ATTACHMENT C

SALES PRICES AND LOAN AMOUNTS
VA PROGRAMS 1974 - 1984

	1974	1984	% INCREASE
VA PROGRAMS			
Average Sales Price (new housing)	$ 30,305	$ 77,003	154.1 %
Average Loan Amount (all housing)	26,531	63,998	141.2
Average Loan Amount (new housing)	29,415	72,427	146.2
Average Loan Amount (existing housing)	25,675	59,837	133.1

Source: Veterans Administration, compiled by NAHB

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202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

ROBERT J. SPILLER

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
THE BOSTON FIVE CENTS SAVINGS BANK
BOSTON, MASSACHUSETTS

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

of the

COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Hearing on

The Fiscal Year 1986 Veterans Administration Budget

March 5, 1985

Mr. Chairman and Members of the Subcommittee, my name is Robert J. Spiller. I am Chairman and Chief Executive Officer of The Boston Five Cents Savings Bank of Boston, Massachusetts. I am also President of the Mortgage Bankers Association of America.* Accompanying me are Warren Lasko, MBA's Executive Vice President; Burton C. Wood, MBA's Legislative Counsel; and William E. Cumberland, MBA's General Counsel.

We appreciate the opportunity to appear before you today to testify on the Administration's proposed budget for the Veterans Administration (VA) for Fiscal Year (FY) 1986, especially the provisions of that budget that call for the imposition of a five-percent "user fee" for the VA home loan guaranty program and the provisions that would revoke the authority of the Administrator to set maximum interest rates for loans guaranteed in the VA home loan program.

MBA believes that the proposed fee is a thinly disguised tax on veterans seeking to own a home, and is contrary to the whole purpose of the VA home loan program. The proposed fee is an indirect effort to undercut the decision of Congress, reviewed and revised as

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- o Mortgage Banking Companies
- o Mortgage Insurance Companies
- o Life Insurance Companies
- o Commercial Banks
- o Mutual Savings Banks
- o Savings and Loan Associations
- o Mortgage Brokers
- o Title Companies
- o State Housing Agencies
- o Investment Bankers
- o Real Estate Investment Trusts

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recently as last year, to recognize veterans' service by helping veterans to own their homes. If additional taxes are needed, they should be broad-based, and not targeted to veterans. MBA urges that the proposed five-percent fee be rejected and that adequate funds be authorized and appropriated to continue the operation of the VA home loan guaranty program in FY 1986.

The Five-Percent Fee Was Not Designed to Strengthen the VA Home Loan Program

The President's FY 1986 Budget estimates that under current law the VA will need $404.6 million in authorization and appropriations to operate the VA home loan guaranty program. In connection with this estimate, the Budget proposes to change current law to impose a five-percent loan origination fee on loans guaranteed by the VA, with the result that the need for guaranty program authorization and appropriations would be avoided.

The linkage of the VA's need for funds to operate the guaranty program and the proposal to assess a five-percent fee on the users of the program falsely implies that the proposed fee is designed to cover the costs of the program. Indeed, the Administration has even said that the fee request "clearly reflects the Administration's policy to require those receiving federal loan guarantees to pay for part or all of the expected federal default liability on guaranteed loans." (Testimony of the Administrator of Veterans Affairs before the House and Senate Veterans' Affairs Committees, February 20, 1985.)

Examination of the amount that the five-percent fee will raise in relation to the needs of the VA loan guaranty program and examination of the context in which the fee is proposed reveals that the fee is intended to raise revenues generally, and was not designed solely to cover the costs of the home loan guaranty program.

Amount Raised Suggests a Reason Other Than Covering Costs

If the fee were designed to cover the costs of the home loan guaranty program, the amount that the fee would generate should bear a reasonably close relationship to the amount the program can be anticipated to need. The proposed fee bears no such close relationship. The Administration estimates that $404.6 million will be needed in FY 1986 to cover FY 1986 losses and expenses. We want to make two points. First, we estimate that the proposed fee will raise $597 million. This is far more than is needed—indeed it is 48 percent more—for this one year of operations. Second, and more important, assessing fees on new loans for one year's losses (on old loans) simply does not reflect a sound business approach to analyzing suitable fee levels. (See Exhibit 1.)

Context Reveals That Aim is General Revenue Raising

The proposed five-percent user fee for the VA home loan guaranty program is part of a government-wide five-percent user fee proposal that would apply to the non-subsidized loan insurance programs of the Federal Housing Administration (FHA) as well as the VA program. With regard to the proposed five-percent fee as it applies to the FHA programs, there can be no doubt that the purpose of the five-percent fee is not to cover costs, because the non-subsidized FHA programs already cover all costs with a much lower fee. For years, the FHA mortgage insurance premiums have supported the FHA non-subsidized insurance programs without requiring Congressional appropriations. Those premiums traditionally were collected at a rate of one-half of one percent annually over the life of the insured mortgage, and in the last two years have been collected as a one-time up-front premium of 3.8 percent. There can be no doubt that for the FHA program, the five-percent fee will serve only the function of raising revenue generally. While there might be some ambiguity about the aim of a five-percent user fee if it were only proposed for

the VA program, in the context of the broader proposed application, the design of the five-percent fee to raise revenues generally is revealed. Collection of money from the public, or some segment of it, for the purpose of raising revenue generally is a tax.

Absence of Rebate Provision Further Indicates That Revenue Raising Is the Aim

The Administration's proposal makes no provision for returning a portion of the five-percent guaranty fee to veterans who pay mortgages off early to reflect that the full term of the guaranty was not used. In the FHA mortgage insurance program, a portion of the insurance premium collected upon loan origination is refunded for mortgages that are prepaid. The concept of the FHA program is that the fee paid by the user is related to the cost of the service provided, and a borrower who uses the FHA insurance only for a relatively short time should not be required to pay the full fare. The budget proposal does not indicate that a rebate or a credit toward the fee for a refinance or restoration mortgage was even considered. The absence of consideration of a rebate provision indicates that the Administration's proposal was developed not with the costs of the services provided to the user in mind, but simply with a desire to raise revenues.

If Increased Taxes Are Needed to Reduce the Deficit, They Should Not Be Targeted to Homebuying Veterans

It may well be that new taxes will be necessary to allow the Government to reduce the Federal budget deficit in FY 1986, but those taxes should be broad-based and should be decided upon in an open discussion of tax policy. The five-percent user fee proposal is a back-door levy on homebuying veterans, thinly disguised as a cost-related user fee intended to strengthen the program.

The proposed five-percent fee would be a significant increase in tax for the homebuying veteran. For example, the VA has estimated that the fee would add $30 per month to the payments required to carry the average VA mortgage. The amount of the average mortgage guaranteed by the VA in 1984 was $64,000, according to the VA. A veteran whose income just qualifies for the $64,000 mortgage would be earning approximately $21,600, according to typical mortgage underwriting criteria. Internal Revenue Service statistics (Individual Income Tax Returns, 1982 Statistics of Income) show that taxpayers earning $21,600 paid, on average, a Federal income tax of $2,500 in 1982 (the latest year for which figures are available). The proposed fee would increase that average veteran's tax by $360, or 14 percent per year if, as will likely happen in most cases, the fee is added to the mortgage. If the veteran pays in full in cash, the tax would be $2,560 in the year of the guaranty, over double the average tax! The President may have promised no additional taxes during his campaign, but, for the veteran obtaining a VA home loan guaranty, the President is proposing a substantial tax increase.

The Proposed Fee Is Contrary to the Purpose of the VA Home Loan Guaranty Program

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program's purpose is to assist qualified veterans to achieve homeownership. The program provides two primary benefits to qualified veterans. First, the VA guarantees a portion of the veteran's mortgage principal. The amount of this guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of $27,500. With this guaranty available, mortgage lenders are able to provide veterans purchasing homes with financing at a lower rate than is available when the program is not available. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. A loan with no downpayment is a "100-percent loan" because the loan amount is 100 percent of the value

of the property. On an annual basis from 1977 to 1984, between 58 percent and 70 percent of VA-guaranteed loans closed were 100 percent loans. (See Exhibit 2.)

Since the VA initiated its program in 1944 until the end of November 1984, 11.1 million loans have been guaranteed. The vast majority of those loans have cost taxpayers only the minor administrative cost of processing the initial approval. Over the life of the program only four percent of those loans have resulted in foreclosure. The foreclosure rate for VA-guaranteed loans has increased somewhat in the past two years following the severe recession that gripped the U.S. economy and the historically high unemployment rates that resulted.

Imposing the proposed five-percent fee on veterans using the VA home loan guaranty fee will work contrary to the program's purpose of assisting qualified veterans to achieve homeownership.

The Fee Would Increase Borrowing Costs to Veterans

The VA has indicated that veterans would be allowed to add the origination fee into the principal balance of the loan. Using this approach, the full five-percent fee would be paid by the lender to the VA at the time the mortgage was originated, and the veteran would pay back this advance, with interest, over the life of the loan. Based on historical data furnished by the Loan Guaranty Department of the VA, MBA has calculated the amount of the average VA-guaranteed mortgage in 1984 to be $64,000, on which the proposed additional fee would be $2,560. For the average VA mortgage in 1984 of $64,000, the extra payments, over the full 30-year term for which VA-guaranteed mortgages typically are written, would amount to extra payments totalling approximately $11,000. This extra cost to the borrower of the average mortgage amount is an arithmetical calculation based upon an interest rate of 12.5 percent, which is the administratively allowed rate today.

There is another way of expressing the cost to veterans of imposing the five-percent fee. Again using the average 1984 VA-guaranteed mortgage of $64,000, the minimum family income needed to qualify for the average mortgage, using typical underwriting standards, today would be $21,600. If the full five-percent fee were imposed, and the necessary monthly payment increase recognized, the required minimum income would have to be $22,600, even though the monthly payment would increase only an estimated $30.00.

The importance of this difference is realized in the fact that most VA guaranteed loans are no-downpayment loans; that is, the amount of the loan is the price of the house. Thus, where without the imposition of the proposed five-percent fee, veterans with incomes of $21,600 and above could afford the house financed by the $64,000 mortgage; with the fee, only veterans with incomes of $22,600 and above could afford it. Based on the most recent census statistical distribution of veterans' income, approximately 850,000 veterans would thus be precluded statistically from buying the house now financed with the average 1984 VA-guaranteed loan. (Veterans in the United States, A Statistical Portrait from the 1980 Census, VA, October 1984.)

Averages are not the only way to understand the adverse impact upon the cost to veterans that adoption of the proposed five-percent fee would have. In fact, the hardest hit veterans would be those in the lower income ranges. The VA has a procedure whereby marginal cases are specially reviewed prior to being approved. Marginal cases are those where the veteran is stretching to buy a home. In calendar year 1984, approximately 60 percent of VA's marginal prior approval cases were for mortgages below the average mortgage. The impact of the increased cost of the five-percent fee will affect most severely those borrowers who are on the margin and who are struggling to achieve homeownership by the use of the VA program.

The Fee Would Threaten No-Downpayment

The VA has indicated that it will allow veterans to pay the proposed five-percent guaranty fee direct to the VA in cash, or allow lenders to advance the fee on the veteran's behalf and add the advance onto the original balance of the loan. If such inclusion in the loan is not fully and continually allowed, the effect is the same as requiring a downpayment of five percent. There could be pressures not to allow the fee to be added onto a no-downpayment loan, because the addition could make the total housing debt of the veteran more than the house is worth. How strong these pressures will be will reflect the extra program costs caused by foreclosure losses and by veterans who lose motivation to try to preserve a negative value asset.

Transfer of Burden

In proposing that homebuying veterans should increase their mortgage debt by the amount of the proposed additional origination fee, the Administration is asking veterans to shoulder the burden of expenses brought about by other veterans who entered the home loan guaranty program earlier. This is another reflection that the proposed fee is not user-cost related. Moreover, it shows a willingness of the Administration to transfer the burden of general government obligations, entered into willingly in the past, to a specific, targeted group of taxpayers who are not specifically benefitting from those obligations.

A Commitment to Veterans

When Congress created the VA home loan guaranty program in 1944 to assist veterans returning from World War II to buy a home, Congress did not design it or intend it to be user-fee supported. The program was a recognition by a grateful nation that the men and

women who had forgone civilian life, many of them against their will, to defend the vital interests of the country should be aided in achieving a home. The program was partial payment for services performed.

To young men and women who entered military service in subsequent years, some of them against their will, to protect the vital interests of the nation in Korea, Vietnam, and elsewhere, the program became a commitment. That commitment has been reviewed from time to time, and Congress has always determined to renew it, the latest review being only last year.

From the beginning, there was a realization that the program would need appropriations, and appropriations have been made in several fiscal years during the operation of the program. In 1984, Congress was faced with the fact that the economic cycle and certain changes in other VA operations precluded the VA from funding the home loan guaranty program from internal VA sources, and that appropriations would be required to continue the program.

In 1984, Congress considered whether to renew its commitment to qualified veterans, especially the Vietnam veterans who are now reaching the point in their lives when they are ready to buy a home. The requested authorization and appropriations were granted. In the Deficit Reduction Act of 1984, Congress directed the VA to administer the program in certain ways to reduce costs, and established a one-percent temporary funding fee set to expire September 30, 1987.

The effects on the program of the 1984 Administrative directives by Congress, of course, need to be studied, and the program may need further adjustments. MBA would welcome an opportunity to participate in the oversight hearings this Subcommittee has scheduled

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for April 18 to review these matters. But in 1984, Congress renewed its commitment to qualified veterans to assist them in buying a home, with a relatively nominal funding fee of one percent through 1987.

Indirect Attack on the Program

As discussed at length above, the proposed five-percent fee is presented as a necessary way of covering costs, similar to the one-percent fee adopted by Congress last year. While not embracing the one-percent fee last year, MBA testified before this Subcommittee that the one-percent temporary fee "is acceptable if a disruption of the program is the alternative." For the reasons set forth above, the five-percent fee will disrupt the program; it is not an alternative to disruption. In its budget submission the Administration did not raise or discuss this disruption. Only after questioning by some of the members of this Subcommittee during hearings held by the Veterans' Affairs Committee on February 20, 1985 did the VA admit there would likely be disruptions of the program.

Beginning in 1981, the Reagan Administration has consistently believed that the Government should discontinue the commitment to supporting the homeownership aspirations of Americans. In 1981, the Administration proposed a roll-back and elimination of the Federal Housing Administration and the Government National Mortgage Association. Congress disagreed. Last year, the Administration proposed a scheme under which the VA would make lenders dispose of all properties after default, even after the Administration had been warned that such a drastic and retroactive change could wreck the program. Congress would not allow it.

This year, the Administration has recalled the political theory tenet that "the power to tax is the power to destroy." By proposing a five-percent tax on the users of the VA home

loan guaranty program, the Administration has taken a first step toward accomplishing indirectly what it cannot achieve directly: a diminution and even a phasing out of the VA home loan guaranty program.

MBA strongly urges that this Subcommittee and the Congress reject the proposed five-percent guaranty fee for the VA home loan program, and authorize and appropriate the funds for FY 1986 to keep the program operating.

Free VA Interest Rate

In its FY 1986 Budget, the Administration indicates that it will seek legislation to allow mortgage interest rates to be negotiated between lenders and borrowers. Under current law, the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. MBA has consistently said that the law should be amended to allow interest rates to be determined by the market.

MBA appreciates the opportunity to appear before the Subcommittee today and would be happy to furnish any additional information, if needed.

Statement of Robert J. Spiller for the
Mortgage Bankers Association of America
March 5, 1985

EXHIBIT 1

ANALYSIS OF PROPOSED FOUR PERCENT INCREASE IN VA FUNDING FEE

Line 1.	Projected Amount of VA Loans Closed, FY 1986, From VA Budget	$14,933,000,000
Line 2.	Additional Fee Income Generated, FY 1986, MBA Calculation (Line 1, times 4% additional fee)	$ 597,320,000
Line 3.	Projected Income Requied For Solvency, FY 1986, From VA Budget	$ 404,600,000
Line 4.	Amount of Overage, FY 1986, MBA Calculation (Line 2 minus Line 3)	$ 192,720,000
Line 5.	Overage as a Percent of Required Income, FY 1986, MBA Calculation (Line 4 divided by Line 3)	48

Sources: Veterans Administration; Mortgage Bankers Association of America, February 1985.

Prepared by Mortgage Bankers Association of America, Economics and Education Department, February 1985.

Statement of Robert J. Spiller for the
Mortgage Bankers Association of America
March 5, 1985

EXHIBIT 2

VA HOME LOAN GUARANTY PROGRAM ACTIVITY
PRIMARY HOME LOANS CLOSED

Total [1]/

	Number	Loan Amount ($Mil)	Average Loan Amount	Average Purchase Price	Avg. Loan to Value Ratio
1977	371,610	13,260	$35,683	$36,982	96.5
1978	352,797	13,959	$39,567	$41,079	96.3
1979	345,708	15,991	$46,256	$48,555	95.3
1980	255,631	13,257	$51,860	$55,092	94.1
1981	136,027	7,543	$55,452	$58,833	94.3
1982	87,027	5,053	$58,062	$63,112	92.0
1983	227,155	14,092	$62,037	$66,723	93.0
1984	181,771	11,633	$63,998	$67,584	94.7

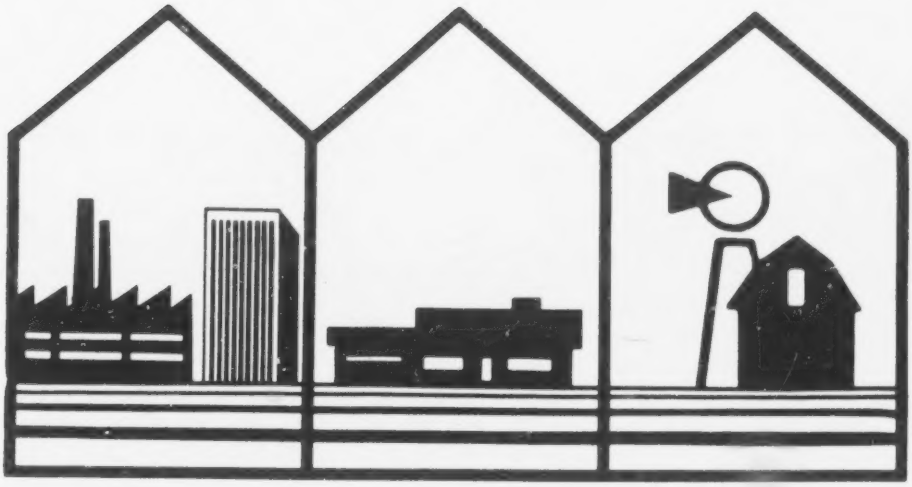
[1]/Loans for refinancing not included.

100% Loans

	Number	Percent of Total Number	Loan Amount ($Mil)	Average Loan Amount
1977	259,509	69.83	8,817	$33,975
1978	244,458	69.29	9,091	$37,188
1979	234,810	67.92	10,260	$43,695
1980	169,839	66.44	8,195	$48,254
1981	89,758	65.99	4,569	$50,901
1982	50,285	57.78	2,629	$52,284
1983	137,315	60.45	7,868	$57,299
1984	118,218	65.04	7,042	$59,564

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by Mortgage Bankers Association of America, Economics and Education Department, February 1985.



Statement of the

NATIONAL ASSOCIATION OF REALTORS®

THE WORLD'S LARGEST TRADE ASSOCIATION

TO:	Subcommittee on Housing and Memorial Affairs of the House Committee on Veterans Affairs
BY:	Stuart A. Davis
DATE:	March 5, 1985
SUBJECT:	FY1986 VA Budget Proposal - "User Fees"

My name is Stuart A. Davis. I am a REALTOR® from St. Louis, Missouri and the Chair of the Real Estate Finance Committee of the NATIONAL ASSOCIATION OF REALTORS®. I am also a former member of the President's Commission on Housing.

On behalf of the more than 670,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I want to thank the Chair, Representative, Shelby, and members of the Subcommittee for the opportunity to present our views on the President's Fiscal Year 1986 Veterans Administration Budget Proposal and in particular, the recommendation to increase the current 1 percent "user fee" on VA-guaranteed loans to 5 percent.

OBJECTIVE OF THE VA HOME LOAN GUARANTY PROGRAM

The Veterans Administration Home Loan Guaranty Program was conceived in 1944 in response to the aftermath of World War II and the economic and sociological problems associated with postwar readjustments. The program was intended to benefit men and women because of their service to this country. There was no intention that the program serve as an instrument to achieve any federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners. Today, it is estimated that the program has served almost 12 million veterans in buying their homes.

The drafters of the original legislation realized that "credit" was the essential ingredient to this program. Therefore, the program was structured to provide veterans with the most favorable credit in an attempt to compensate for any lost opportunities they may have suffered in the credit market during the period of their military duty.

To be eligible for the home loan guaranty benefit, the only criteria is that the individual be an "eligible veteran" (meets service and discharge

requirements), the loan be for eligible purposes, the home be occupied by the veteran, and that the veteran meet income and credit standards. Therefore, not only does the program seek to provide favorable credit, but its primary qualification for participation is that the individual is an "eligible" veteran.

In carrying out the objective of credit accessibility for ALL veterans, the program has become for some a benefit to which they feel entitled and to others a bastion of last resort. To both groups, however, the program has enabled them to purchase a home at below conventional rates and usually with no down payment.

PROPOSED FEE INCREASE

In the Fiscal Year 1986 Budget Proposal, President Reagan has recommended, as a part of his budget deficit reduction package, an increased "user fee" from the present 1 percent to 5 percent. The origin of this increase is OMB Circular A-70 which purportedly directs federal credit programs towards greater self-sufficiency through cost-effectiveness.

In responding to the issue of the budget deficit, the NATIONAL ASSOCIATION OF REALTORS testified before the Senate Budget Committee on February 22, 1985, and recommended that:

> "...any changes in taxes or tax-like user charges (be designed) to encourage both long-lived and short-lived investment in housing, homeownership, commerce and industry."

The President's increase in the "user fee" rejects this recommendation and instead, imposes a tax-like charge upon the program and more specifically, the veteran. As previously noted, the purpose of this guaranty program was to benefit the veteran for his or her service to their country. The imposition of an increased "user fee" would only serve to malign this objective through monetary disqualification for some veterans.

For example, the VA loan guaranty program currently requires no down payment for most of its loans. The VA has indicated that it will offer borrowers the option of paying the "user fee" either upfront or added to the loan amount. If the fee is added to the loan amount, thus amortizing it over the life of the loan, the effect is to establish a loan-to-value ratio of 105 percent.

Such a high loan-to-value ratio is likely to be a strong factor against underwriting of loans to those veteran borrowers in the "marginal" category. Therefore, the lender may opt for the upfront payment. Requiring the fee to be paid in an upfront fashion would certainly defeat the purpose of the no down payment benefit of the program, particularly for those borrowers who need it most.

Furthermore, in some cases, the seller may be asked to absorb the additional user fees, thus further escalating the price of the home and, conceivably, eliminating the seller's interest in negotiating a sale on the VA loan.

IMPACT ON VA LOAN ORIGINATIONS AND THE GROSS NATIONAL PRODUCT (GNP)

Assisted by flexible VA underwriting standards and a no down payment requirement for most loans, the program's objective to provide accessible mortgage credit to ALL veterans makes it a popular program for some and a must for others.

The increased "user fee" will likely jeopardize the future participation of many veterans in this program. Many may view the increased fee as an unreasonable burden on a benefit to which they are entitled. Veterans who are financially able may pursue other loan alternatives. However, those veterans without the financial means will be forced to forego the possibility of homeownership.

There are two types of loan underwriting methods used by the Veterans' Administration. Loans which generally conform to the FNMA/GNMA standards in terms of the financial or property characteristics are underwritten by lenders as Automatic Approvals. Because Automatic Approvals are underwritten by the lender, the VA does not have any available data on the financial characteristics of these loans. These loans comprise almost 53 percent of the total program and, according to VA, they are increasingly a growing percentage of all loans.

Because financial characteristics data on Automatic Approval loans is not available, a direct analysis of the loan loss percentage can not be generated. However, our economic analysis estimates that approximately 5 percent of the lower income level or "marginal" VA borrowers in the Automatic Approval category would be adversely effected by the increased fee. (SEE ADDENDUM)

The other type of loan process is the Prior Approval. Generally speaking, this type of loan usually involves a borrower with a more risky financial profile. In this case, the loan as submitted to a VA-approved lender is nonconforming to general VA underwriting or property guidelines. The loan must be authorized by VA underwriters before the lender can make the loan. Prior Approval home loans make up slightly more that 47 percent of the total program.

It is the Prior Approval segment of the program which is likely to be most effected by the increase in "user fees". Our analysis estimates that approximately 30 to 40 percent of the Prior Approval loans would be lost by the increased fee. (SEE ADDENDUM) Combining the effect on both the Automatic and Prior Approval segments, the proposed fee increases would likely cause a reduction of between 17 and 22 percent in the number of VA originations.

Such an impact can neither be rationalized nor defended as deficit reduction or as having, as the Administration claims in its budget documents, "only the effect of increasing the fees by 500 percent," since the fee was

just increased last year. The very purpose of this program is dramatically altered by these fee increases and, once again, those desiring homeownership will be denied.

The reduction in the number of originations can also be shown to effect the Gross National Product (GNP) through the housing sector. It has been estimated that the proposed fee will raise $588 million. Using the projected reduction in originations as a result of the fee increases, our analysis calculates a total loss to the GNP of between $750 million and $1 billion dollars. (SEE ADDENDUM) This calculation illustrates that there is likely to be a dollar loss in GNP greater than the figure that has been estimated to be the revenue gain from the increased fee.

While there may be justifiable concern over the economic stability of the VA Revolving Fund, the increased "user fee" not only significantly changes the scope of the VA program and its participants but, it also appears to cost the economy more in lost GNP than it makes up in additional revenues.

ALTERNATIVES TO INCREASING VA FEES

While the Association strongly opposes an increase in VA fees for the reasons outlined above, we want to provide the Subcommittee with suggested alternative approaches to improving the financial stability of the VA Home Loan Guaranty Program.

• Underwriting Standards: We recognize that, because of the very nature of the VA Home Loan Guaranty Program, the underwriting standards are necessarily "flexible." However, we continue to be concerned that every effort be made to ensure that the Veteran borrower has the ability to assume and discharge the financial obligation of a home loan.

It is our understanding that the Loan Guaranty Department of the Veterans Administration has recently undertaken a thorough review of the

Administration's existing underwriting criteria to identify possible areas of improvement. We wholeheartedly support this effort, and urge the VA to strengthen its standards, where necessary, in order to minimize the risk to the revolving fund.

• Foreclosure Procedures: As I am sure this Subcommittee knows, the VA Loan Guaranty Revolving Fund was, until recently, self-sustaining. In fact, only 4 percent of the total VA loans which have been originated since the inception of the guaranty program have resulted in foreclosure.

While a reduction in the availability of internal funding to the Guaranty Fund has been one of the major contributors to its financial ills, we are concerned that the VA's foreclosure policies have, perhaps, exacerbated the decline in the revolving fund. Prior to the enactment of the Deficit Reduction Act of 1984 (July 1984), the Veterans Administration, in about 95 percent of its default cases, chose to acquire and resell the foreclosed property, while compensating the lender for its direct costs incurred by the default and foreclosure.

In an effort to address this issue, Congress adopted a provision in the Deficit Reduction Act, which requires the VA to undertake a "case-by-case" analysis in all default situations to determine which foreclosure method is most cost effective. These two methods include either: (1) acquisition and resale of the defaulted property, with compensation to the lender for its costs; or (2) payment of the loan guaranty only. According to the VA, this new procedure has, in fact, reduced its acquisition rate from 95 percent to 90 percent.

We supported this approach when it was debated last year, and believe that it is a viable alternative to the previous foreclosure policies, and we urge its continued use in a comprehensive fashion. We also recommend that Congress periodically monitor and evaluate the effects of the "case-by-case" method.

• Disposition of Properties: Currently, the Veterans Administration has some 22,000 properties in inventory valued at over $800 million. In order to maximize the financial remuneration from resale of these properties, we strongly recommend that the VA review and evaluate the effectiveness and strength of the existing disposition methods to identify possible areas for improvement, and that resale of acquired property by the VA be pursued in a vigorous manner.

• Vendee Mortgages: It is our understanding that when the VA sells one of its acquired properties to a non-veteran, that buyer is provided a direct loan at a reduced interest rate, along with a promise by the VA to repurchase the property in the event of a subsequent default.

While we recognize that last year, Congress established a 1 percent "vendee fee" for the buyer of such a property to offset the VA's costs, we can see no rationale for providing a non-veteran with a below-market interest rate, or for the VA's promise to repurchase the mortgage in case of default. Indeed, this promise defeats the purpose of selling the foreclosed property in the first instance.

We recommend that the VA consider altering both these features of vendee mortgages, so that it can both recoup some costs, and also preserve the attractiveness of resale of foreclosed property.

Mr. Chairman, in conclusion, we strongly urge that this Subcommittee reject the Administration's recommendation to increase the "user fees" from 1 percent to 5 percent. The proposal is not cost-based, does not reflect the nature and philosophy of the program, will jeopardize the viability of an essential mortgage financing tool for most veterans, and is anti-homeownership.

I want to express my appreciation to the Subcommittee for the opportunity to appear today. At this time, I will be happy to answer any questions that you may have. Thank you.

ADDENDUM

ANALYSIS OF VA FEE INCREASE IMPACT ON VA LOAN
LOAN ORIGINATION AND GNP

For the purpose of analysis, the following assumptions are made:

- Segmented VA mortgage loan markets - Borrowers who cannot qualify for a VA loan are not able to qualify for a conventional or FHA loan either.
- VA underwriting is flexible, based on consideration of Veteran needs and rights to a VA loan. VA underwriters are "flexible" with respect to allowing high ratios of housing expense to gross and net income.
- VA refinancing activity is ignored and it is assumed that even if VA refinancing cannot be obtained, that conventional or FHA will be.

THE SIZE OF THE VA LOAN PROGRAM

In 1983, there were 227,155 primary home loans made totalling $14.1 billion. Of these, 137,315 were no down payment loans and 89,840 were down payment loans. The average loan amount and purchase price was $62,038 and $66,723, respectively. For the no down payment variety, the average loan amount was $57,299; for the down payment variety the typical loan averaged $69,281. (See Attachment I).

Prior Approvals totalled 105,702 loans and made up 47% of the VA Home Loan Guaranty Program. There were 64,623 no down payments and 41,079 with down payments. The average loan amount/purchase price for no down payment loans was $54,212; down payment loans carried loan amounts of $65,827 and purchase prices of $76,358. (See Attachment III)

Automatic Approvals totalled 121,453 loans or were 53% of the VA Home Loan Guaranty Program. The VA does not collect any financial data for Automatic Approvals because the loans are underwritten by the lenders. Consequently, no additional data is available.

FINANCIAL CHARACTERISTIC DATA

The VA collects financial data only for Prior Approval home loans. The following analysis examines the potential impact of increasing the VA fee by 4 percent of the loan amount on distributions of financial characteristics of VA Prior Approval borrowers.

The data for the financial characteristics on home loans require some explanation in order to understand its usefulness. Analysts at the VA have indicated that the table (See Attachment II) was constructed in the following manner: For each variable (i.e., loan amount, purchase price, income(s), etc.) the data were ranked from lowest to highest and the figure corresponding to the upper limit of each quintile (each one-fifth of the total) was recorded.

Since this method of constructing the table is used independently for each variable, the possibility of variations in each variable makes it uncertain whether the same set of financial characteristics (i.e., loan amount, price, income, expense, etc.) at the upper end of the lowest, second, third, and fourth quintile (fifth) corresponds to the same borrower.

However, within reason, impacts may be inferred if it is assumed that most borrowers could be ranked on the basis of their loan amounts, ratios of housing expense to gross and monthly income, and assets; and, that the upper limit value of four quintiles generally correspond to borrowers who have a superior financial profile to other borrowers within that quintile.

Analysis of Financial Characteristics

Attachments II and III detail financial characteristics for home (single-family) loans. For single-family home loans (ALL LOANS category) the typical loan amount is about $59,000 on a purchase price of about $63,000. Average monthly housing expense (including PITI and utilities) is about $842. Borrower gross and net monthly incomes are $2,676 and $1786, respectively; and, average assets total about $10,283 most of which are probably not liquid. The typical housing expense to gross monthly income (HE/GMI) ratio is 31.5 percent and housing expense to net monthly income (HE/NMI) is about 47.2 percent.

The analysis of the 4 percent point fee increase presented below details the effects on the housing expense to gross and net monthly income ratios. In these cases, it is assumed these fees may be assumed into the mortgage amount and are amortized for 30 years at 12 1/2 percent - the current VA ceiling rate.

However, if the fees are not built into the loan amount, VA borrowers will have to come up with the money at settlement. Presumably, these funds would come out of liquid assets (i.e., cash, savings accounts, marketable securites, etc.). In this case, the amount of the fee increase would be compared with the borrower's assets to determine whether they would qualify.

PRIOR APPROVAL HOME LOANS
1983 RATIOS versus ADJUSTED RATIOS*

Actual Ratio	Lowest Fifth	Second Fifth	Third Fifth	Fourth Fifth
HE/GMI	32.41%	32.07%	31.68%	31.38%
HE/NMI	46.34	46.93	47.20	47.85
LTV	97.25	95.41	93.75	93.25
Adjusted Ratio* (Assumes 4 percent fee increase amortizing and added to Housing Expense)				
HE/GMI	33.31%	33.01%	32.62%	32.35%
HE/NMI	47.63	48.31	48.61	49.32
LTV	101.14	99.22	97.50	96.98
Assets (1983)	$1,443	$2,742	$5,357	$14,219
Fee Increase	$1,556	$1,996	$2,400	$ 3,040

The table above computes figures based on the upper limit of the first four quintiles of the financial characteristics data provide in Attachment III. They present the current (i.e., 1983) ratios and estimates of the increase in the housing expense to income ratios and the increase in the loan to value (LTV) or loan to price ratio if fees are increased by 4 percentage points. At the bottom of each table, an estimate of the fee increase, as well as, the 1983 borrower assets are provided. These latter two figures will be used to determine whether groups of VA borrowers could obtain the necessary up-front funds from cash, savings or even no-liquid asset sources.

The table shows that borrowers who could be categorized in the lowest one-fifth of Prior Approval loans would experience increases in housing expense ratios putting them further above the average 31.5 (See Attachment I) ratio and above the 47 percent ratio for net monthly income. Furthermore, the loan-to-value on these loans could exceed 100 percent. Conceivably VA underwriters, responding to the increased risk of these loans would refuse VA insurance to those in the lowest fifth. Moreover, if these fees were not incorporated into the loan amount, homeowners in the lowest quintile would not have sufficient liquid or non-liquid assets to come up with the extra fees. Consequently, roughly, 20 percent of Prior Approval single family borrowers would be refused VA loans.

Examining the second quintile, some borrowers in the second quintile would be able to qualify even under the increased fees by selling off assets to obtain the extra funds. A rough estimate is that at least one-half and possibly most of the second quintile loans would be refused by VA underwriters. The figures suggest that 30 to 40 percent of Prior Approval loans would be rejected by VA.

Automatic Approval Loans

The inavailability of financial characteristics on Automatic Approval loans does not allow a direct analysis of the loan loss percentage for this processing mode. However, it is conceivable that some lower end or marginal VA borrowers would be affected, although it should be significantly smaller than the percentages for the Prior Approval group. A reasonable estimate would be about 5 percent of these loans.

Impacts On the Number of VA Loans

Imposition of the additional 4 percent fee would cause the loss of 30 to 40 percent of VA Prior Approval loans on single-family homes. In addition, a reasonable estimate of 5 percent loss in Automatic Approval loans is offered, because there will be losses there, although considerably lower.

COMPUTING THE ANNUAL GNP LOSS

In this section, an estimated GNP dollar loss due to raising the VA fee structure from the current 1 percent to 5 percent will be computed. Prior analysis has provided measures of the dollar impact of a single resale transaction on the entire economy. These are based on direct and indirect expenditures made by home sellers and homebuyers before and after each home sale. These expenditures have a multiplier effect on the entire economy, therefore, the total monetary effect of the home resale on the economy is substanstial.

National Association economists have calculated the contribution to yearly GNP from a VA home "resale" in 1985 will equal $13,782. Also, the total 1985 GNP contribution for a VA "new" home sale is $76,972. Both of these figures include direct and indirect effects on the economy. To do this, the following assumptions are made:

- Assume the total number of 1985 VA originations is equal to 1984 VA totals. Specifically, 182,000 VA loans would be originated.

- Assume the ratio of Prior Approval versus Automatic Approval loans is similar to 1983 total. Specifically, 96,029 loans are Automatic Approval loans and 84,690 loans are Prior Approval home loans.

- Assume the ratio of new homes/existing homes in 1984 will hold for 1985. Specifically, we assume that 18 percent of home sales are new homes and 82 percent are existing homes.

Prior Approval Home Loans

It is estimated that between 25,400 and 33,876 VA Prior Approval loans would be lost as a result of the increased fees. The following tables detail the GNP loss calculation:

PRIOR APPROVAL HOME LOANS
SALES LOST DUE TO FEE INCREASE

	30 Percent Assumption	40 percent Assumption
New (18%)	4,572	6,098
Existing (82%)	+ 20,828	+ 27,778
	25,400	33,876

GNP LOSS
NEW AND EXISTING HOMES

NEW HOMES		EXISTING HOMES	
30 Percent	40 Percent	30 Percent	40 Percent
4,572	6,098	20,828	27,778
x 76,972	x 76,972	x 13,782	x 13,782
$351,915,984	$469,375,256	$287,051,496	$382,836,396

TOTAL GNP LOSS

	30 Percent	40 Percent
New	$351,915,984	$469,375,256
Existing	287,051,496	382,836,396
	$638,967,480	$852,211,652

Automatic Approval Home Loans

It is estimated that the loss of 5 percent of Automatic Approval loans will result in the loss of 4,801 loans of which 864 are new homes and 3,937 are existing home loans. The following tables detail the GNP loss calculation:

GNP LOSS
NEW AND EXISTING HOMES

NEW HOMES	EXISTING HOMES
864	3,937
x 76,972	x 13,782
$66,503,808	$54,259,734

TOTAL GNP LOSS

New	$ 66,503,808
Existing	$ 54,259,734
	$120,763,542

GNP LOSS DUE TO INCREASED VA FEES
IMPACT ON ECONOMY THROUGH THE HOUSING SECTOR

	30 Percent Assumption	40 Percent Assumption
Automatic Aproval Home Loans		
New and Existing	$120,763,542	$120,763,542
Prior Approval Home Loans		
New and Existing	$638,967,480	$852,211,652
TOTAL GNP Loss	$759,731,022	$972,975,194

Thus, the estimated GNP loss due to the increased VA user fees will range from slightly more than $750 million to almost one billion dollars annually.

ATTACHMENT 1

VETERANS ADMINISTRATION HOME LOAN ACTIVITY
PRIMARY HOME LOANS

			TOTAL		NO DOWN PAYMENT		DOWN PAYMENT LOANS		
CY	TOTAL	LOAN AMT BILLIONS	AVERAGE LOAN AMOUNT	AVERAGE PURCHASE	NUMBER	AVERAGE	NUMBER	AVERAGE PURCHASE	AVERAGE LOAN
1977	371,610	13.260	$35,682	$36,982	259,509	$33,975	112,101	$43,945	$39,633
1978	352,797	13.959	39,565	41,079	244,458	37,188	108,339	49,861	44,930
1979	345,708	15.991	46,254	48,555	234,810	43,695	110,898	58,847	51,681
1980	255,631	13.257	51,860	55,092	169,839	48,254	85,792	68,579	58,950
1981	136,027	7.543	55,453	58,833	89,758	50,901	46,269	74,221	64,285
1982	87,027	5.053	58,062	63,112	50,285	52,284	36,742	77,930	65,971
1983	227,155	14.092	63,038	66,723	137,315	57,299	89,840	81,128	69,281
1984	181,771	11.633	63,998	67,584	111,218	59,564	63,553	82,514	72,257

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by the NATIONAL ASSOCIATION OF REALTORS®, Economics & Research Division, February 1985.

ATTACHMENT II

RANGE OF FINANCIAL CHARACTERISTICS BY EACH FIFTH
OF VETERAN PARTICIPANTS
PRIOR APPROVAL HOME LOANS
CALENDAR YEAR 1983

	Lowest Fifth	Second Fifth	Third Fifth	Fourth Fifth	Highest Fifth	Median
Loan Amount	$38,900 and Under	$38,900-49,900	$49,900-60,000	$60,000-76,000	$76,000 and Over	$55,000
Purchase Price	$40,000 and Under	$40,000-52,300	$52,300-64,000	$64,000-81,500	$81,500 and Over	$58,000
Gross Monthly Income	$ 1,836 and Under	$ 1,836-2,261	$ 2,261-2,715	$ 2,715-3,365	$ 3,365-and Over	2,480
Net Monthly Income	$ 1,284 and Under	$ 1,284-1,545	$ 1,545-1,822	$ 1.822-2,207	$ 2,207 and Over	1,678
Housing Expense	595 and Under	595-725	725-860	860-1,056	$ 1,056 and Over	789
Assets	$ 1,443 and Under	$ 1,443-2,742	$ 2,742-5,357	$ 5,357-14,219	$14,219 and Over	3,733
Age	29 and Under	29-33	33-37	37-44	44 and Over	35

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration

Prepared by the NATIONAL ASSOCIATION OF REALTORS®, Economics & Research Division, February 1985.

ATTACHMENT III

LOAN GUARANTY FINANCIAL CHARACTERISTICS
PRIOR APPROVAL HOME LOANS
CALENDAR YEAR 1983

	No Down Payment Loans	Down Payment Loans	All Loans
Number of Loans	64,623	41,079	105,702
Average Maturity	349	347	348
Average Loan Amount	$ 54,212	$ 65,827	$ 58,735
Average Purchase Price	$ 54,212	$ 76,358	$ 62,819
Average Gross Monthly Income	$ 2,508	$ 2,939	$ 2,676
Average Net Monthly Income	$ 1,686	$ 1,943	$ 1,786
Average Monthly Housing Expense	786	931	842
Average Assets	$ 4,676	$ 19,104	$ 10,283
Housing Expense as a % of Gross Monthly Income	31.4	31.7	31.5
Housing Expense as a % of Net Monthly Income	46.6	47.9	47.2
Number of New Homes	12,025	15,714	27,739
Number of Existing Homes	52,599	25,365	77,963

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by the NATIONAL ASSOCIATION OF REALTORS®, Economics & Research Division, February 1985.

THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

"STRENGTH IN UNITY"

Statement of

Richard W. Johnson, Jr.
Director of Legislative Affairs

before the

Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
U.S. House of Representatives

on

Proposed Changes in Loan Guaranty
FY 1986

March 5, 1985

NATIONAL CAPITAL OFFICE
219 N. Washington Street * Alexandria, VA 22314 * Tele: (703) 549-0311

Mr. Chairman, for the second time in as many years, NCOA appears before the committee in opposition to an Administration request for legislation proposing substantial modification of the VA loan guaranty program. Once again, the Administration has presented Congress with an ill-conceived proposal, as unlikely to achieve its stated purpose as the recommendations made just one year ago.

Background

The Veterans' Home Loan Guaranty Program was founded 40 years ago with three fundamental goals. First, its mission is to provide veterans assistance in acquiring homes. The second goal is to assist veterans in retaining their homes through periods of financial difficulty. The final goal is to minimize losses to the government through efficient administration of the program.

More than 11 million veterans have shared in the success of the program. For the veteran, the program provides an opportunity to buy a home with only small cash investment; essentially, "no money down". Although the veteran usually must pay some closing costs and a loan origination fee, the dollar investment required is substantially less than in most other governmental and conventional loan programs. Additionally, veterans are not required to pay fees for private mortgage insurance (PMI) or federal mortgage insurance.

Mortgage lenders have found the program to be sound because the VA guarantees up to 60 percent of a loan to a limit of $27,500 under current law. The VA guaranty has served lenders as an acceptable substitute for down payments thus allowing veterans an additional advantage. At the same time, lenders have relied on the VA's policy

of acquiring foreclosed properties as further assurance against financial loss. This, of course, also works to the advantage of veterans. Due to the amount of protection the VA offers, lenders generally show greater forebearance on loans in default and are generally more liberal with loan qualification requirements; an important goal of the program.

Investors and homesellers also derive certain benefits from the program. Without going into detail, investors have found the loans easy to resell because of the attendant guarantees. More than $200 billion of investments have been infused into the economy since the program began. At the same time, builders and sellers have found veterans to be a staple in the marketplace frequently creating a demand for housing in a depressed industry.

Last year, as a result of the Grace Commission recommendations to change the acquisition policy of loans in default, the management practices of the loan guaranty program came under close scrutiny. The Commission recommended that the VA begin paying lenders the guaranteed amount on defaulted loans instead of buying properties for subsequent resale. Those celebrated suggestions received close Congressional attention, and it was determined that the three year savings proposed by the Grace report might be realized. However, after three years, implementation of those recommendations would have cost the government more than it saved.

FY 1986 Fee Proposal

Now before Congress is a proposal to increase to five percent the loan origination fee paid to the Veterans Administration to five. Taken in concert with the one point fee allowed by law to be paid to lenders, this means veterans will have to pay six points (or six percent of the loan value) to purchase a home using the VA guaranty.

According to VA estimates, this change will reduce participation in the program by less than 50 percent and will raise revenues of about $600 million in the Loan Guaranty Revolving Fund (LGRF). At best, the VA's projections are highly speculative. Even the VA admits the figures are not based on any study or experience.

It does not take a crystal ball, however, to see what will happen to the average VA loan and the cost to veterans. In the following example, we have used a 30 year amortization schedule at the current 12.5 percent interest rate on a $63,000 home.

Under current VA law:

Purchase price	$63,000.00
1 point to VA	630.00
1 point to lender	630.00
Total points	$ 1,260.00

Monthly payment $ 672.37 (principal + interest)

Under proposed law:

Purchase price	$63,000.00	
5 points to VA	3,150.00	
1 point to lender	630.00	
Total points	$ 3,780.00	
Monthly payments		
If points pd in cash	$672.37	
If VA points financed	$705.99	($33.62 more per mo.)
Additional cost to veteran		2,520.00 points
		$12,103.20 interest
		$14,623.20 Total

Using private mortgage insurance (conventional loan):

Purchase price	$63,000.00*	
Points to lender (2)	1,260.00	
Points to PMI (1/2)	315.00	
Total points	$ 1,575.00	
Monthly payment (including PMI)	$685.50	(PMI premium $13.13 month)
Additional cost to veteran		315.00 (1/2 pt. for PMI)
		$4,726.80 (additional PMI)
		$5,041.80 Total

* Some private mortgage insurers require five percent minimum down payment.

As noted in the above examples, veterans will suffer a substantial, and perhaps avoidable, financial loss by participating in the VA loan guaranty program. The proposed law would potentially cost veterans over $14,000 more than the current program and almost $9,600 more than a privately insured conventional mortgage.

Who then, would use the new program. In the opinion of NCOA only those veterans who do not meet the expense-to-earnings ratios required by private mortgage insurers. This would amount to about 30 percent of veteran homebuyers based on VA figures that only 30 percent of loan guaranty applicants would not qualify for other forms of financing. This is the same segment of the veterans population most likely to seek no-down-payment loans thereby presenting the problem of seeking a loan which exceeds the value of the property. Will lenders allow veterans to finance $66,000 on a $63,000 property to accommodate the VA point structure? In our opinion, such arrangements are unlikely. NCOA believes it equally unlikely that such loans, if granted, could be subsequently marketed to investors. If the Association's assessment is correct, then a substantial number of veterans will be priced out of the housing market while others will be forced to purchase less expensive homes than they need or desire.

Private mortgage insurers may also react unpredictably to this new market segment. They may seek new restrictions or increased fees in order to protect premium reserves, or they may relax criteria for coverage in order to gain a strong competitive foothold in this new market. Either way, veterans will have to pay more for housing, the LGRF will continue to lose money and many veterans will be unable to purchase homes.

Extended Effects

The extended effects of this change are also predictable. In the years since it was created, the loan guaranty program has created financing for almost 500 million new homes. On a cumulative 40 year outlay of $1.3 billion the United States has created over $200 billion in investments. Diminishing participation in the program will slow, and eventually end this investment growth.

The immediate impact will be a reduction in new housing starts and the associated employment reduction in construction related industries. Reduced construction and housing sales stagnate general economic growth and reduce growth in the tax base which support cities, counties and states across the nation.

Conclusion

Mr. Chairman, many of the arguments contained herein closely resemble the arguments NCOA expressed last year against the Grace Commission proposals. This is not entirely coincidental.

Last year's proposals suggested dismembering a fully successful and structurally sound program because of a temporary economic shortfall in the LGRF. This year's proposal has fundamentally the same objective.

In each case, the Administration has, in our opinion, advanced these recommendation without sufficient study to realistically project their long-term impact. In the case of the five percent fee, they really cannot even project the short term impact of the proposal.

Also, in each case, the real solution to the problem is to increase cash flow in the LGRF by reduction of property inventory. At

such time as the VA is able to reduce its property inventory, the Loan Guaranty Revolving Fund should be sufficient to sustain the program without further appropriations. However, it may take several years to accomplish this reduction.

Altogether, the veterans' home loan guaranty program has been a remarkable success. Excluding the gratuities given through 1953, it has served nearly 12 million veterans and their families at an average cost of about $80 each. Both Congress and the Veterans Administration have been very responsive to the needs of veterans in this area and the collective effort is reflected in public law and federal regulation. NCOA is grateful to Congress and the VA for the efforts that have been made to preserve and keep this program current. The Association is hopeful and confident that Congress will "stay the course" and reject these latest proposals.

Thank you.

STATEMENT OF RICK HEILMAN, NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 950,000 members of the Disabled American Veterans, I wish to express our appreciation for the invitation to appear at today's oversight hearing to discuss the impact of the proposals contained in the Administration's Fiscal Year 1986 budget which would affect the VA Home Loan Guaranty Program.

As you know, Mr. Chairman, the Administration's Fiscal Year 1986 budget request proposes legislation that would provide for (1) increasing from 1% to 5% the loan origination fee on all guaranteed and vendee loans; (2) allow for borrower/lender negotiated rates on guaranteed and vendee loans by terminating the Administrator's authority to set interest rates; and (3) repeal transfer authority from the direct loan revolving fund to the loan guaranty revolving fund.

Let me state at the outset, Mr. Chairman, it is our view that the imposition of a 5% users fee, coupled with removing the Administrator's authority to set interest rates, is sufficient to effectively kill the VA Home Loan Guaranty Program.

Mr. Chairman, we understand the concern regarding the solvency of the VA home loan guaranty revolving fund due to the significant number of foreclosures that have occurred in recent years.

The Administration believes they can generate $400 million in revenues for the loan guaranty revolving fund by a 4% increase in the users fee which, in turn, will eliminate the need for Congressional appropriations to the fund.

It is inconceivable to us that, with such a dramatic increase in the users fee, the Administration's projected 220,000 loans for Fiscal Year 1986 will actually materialize. Why would nearly a quarter of a million veterans willingly hand over $3,000 to $5,000 just for the privilege of using this program, with not one nickel of that money being applied against the principal of their mortgage?

Mr. Chairman, the so-called savings the Administration projects by increasing the users fee we believe is grossly overstated.

It is also important to point out that Public Law 98-369, The Deficit Reduction Act of 1984, addressed the dilemma of the VA's loan guaranty revolving fund by increasing the users fee from .5% to 1.0%, requiring the fee to be deposited in the loan guaranty revolving fund and extending authority to collect the fee through September 30, 1987. These provisions, together with other provisions of Public Law 98-369 pertaining to the acquisition of properties and vendee loans, all went into effect within the past six months.

Quite frankly, Mr. Chairman, it doesn't appear that the Administration had sufficient time to evaluate the impact of these changes upon the Home Loan Guaranty Program.

Our other area of concern is the proposal to repeal the Administrator's authority to establish maximum interest rates and, instead, allow for borrower/lender negotiated rates.

As you know, last year the Congress adopted a similar proposal for the FHA program. As we understand it, the House Committee on Banking, Finance and Urban Affairs is giving serious consideration to legislation (H.R. 1) that would restore the Secretary of Housing and Urban Development's authority to establish maximum interest rates for the FHA program.

It is our view that the only clear beneficiaries of repealing the VA Administrator's authority to establish maximum interest rates and therefore providing for borrower/lender negotiated rates

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would be financial lending institutions. Veteran loan applicants are certainly not going to be the recipients of lower interest rates as the result of this proposal.

In closing, Mr. Chairman, we urge you and the Subcommittee to carefully evaluate the adverse impact these proposals will have upon Vietnam veterans and those being discharged from the service today--the primary beneficiaries of the VA Home Loan Guaranty Program today. I am sure you will agree, Mr. Chairman, that Vietnam veterans are deserving of a Home Loan Guaranty Program from which they will benefit, not one for which they must pay. Therefore, should the Subcommittee reject the proposals we have discussed, we respectfully request that the Department of Veterans Benefits be exempted from absorbing the funds associated with these proposals.

This completes my statement, Mr. Chairman. I again wish to thank you and the members of the Subcommittee for allowing us this opportunity to express the DAV's views on this most important matter.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

JAMES N. MAGILL, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

IMPACT OF PROPOSED FISCAL YEAR 1986
BUDGET ON VETERAN ADMINISTRATION
HOME LOAN GUARANTY PROGRAM

WASHINGTON, D.C. MARCH 5, 1985

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the privilege of appearing before this distinguished subcommittee to present the views of the Veterans of Foreign Wars of the United States with respect to the impact of the proposals contained in the President's budget of FY '86 which would affect the Veterans Administration Home Loan Guaranty Program

Mr. Chairman, the VFW continues to consider the VA Home Loan Guaranty Program as one of the most successful and beneficial programs available to veterans. More than eleven million loans have been approved, thus attesting to its popularity. If it were not for this program a vast number of veterans would not be in their own homes today. We believe the Loan Guaranty Program should continue to enjoy the full support of the Congress and the Administration. Unfortunately, the President's FY '86 budget is recommending two proposals which would, in our

opinion, severely undermine this highly successful program.

One such proposal would increase the "user-fee" for a VA guaranteed home loan from one percent to five percent. Inasmuch as we opposed the establishment of a "user-fee" and its subsequent increase from one half of one percent to a full one percent, we are now even more committed in our opposition to this proposed excessive and unwarranted increase. One of the attractive features of the Home Loan Guaranty Program is the provision of not requiring a down payment. Many of today's two income families can manage a large monthly mortgage payment; however, they have not been able to save enough capital to meet the stiff down payment requirements of commercial lending institutions. As we have stated in the past, we perceive the "user-fee" to be, in effect, a down payment without the benefit of equally reducing the amount to be financed. Of course, the veteran may opt to have this fee incorporated into the loan. This avenue, though, is hardly advantageous to the veteran. Assuming $60,000 to be the average VA guaranteed loan, a $3,000 user-fee would be assessed. This original $3,000 amount amortized over 30 years at todays current market rate would require the veteran to actually pay over $11,000 or nearly four times the required amount. In addition, there is the very real possibility of lenders requiring increased compensation for the higher risk of lending an amount greater than the value of the property. If a veteran opts to amortize the user-fee and not render a down payment the lender would then have to grant a loan for the current value of the property plus the user-fee.

Mr. Chairman, the Administration is also proposing to repeal the Veterans Administration's authority to establish a home loan interest rate. We believe

departing from this policy would be a serious mistake and detrimental to the veteran's best interest.

At present the VA only establishes the maximum interest rate a veteran can pay on a guaranteed loan. Even though lenders may charge a lesser rate, cases such as this are rare or non-existant. We believe, should veterans be forced to negotiate this rate, they will ultimately pay higher rates than they do now with an administered rate. One reason for this anticipated higher interest payment is that the lenders set the rate. Because most home buyers do not shop around for the best lender package, we do not foresee the "competitive factor" holding down the rate. In addition, VA guaranteed loans offer various benefits that are not always available on conventional loans. Assumability, no prepayment penalties and fixed rates are attractive terms that private lenders may consider are justification for assessing higher rates.

Not only would the veteran experience increased expenses with a negotiated rate, we believe the VA would witness increased claim costs should foreclsoe proceedings occur. When a VA - guaranteed loan goes to foreclosure the claim is paid with interest based on the mortgage rate. Inasmuch as we expect higher interest rates, should this proposal be enacted, it can only be expected outlays will increase from the Loan Guaranty Revolving Fund. As one can deduce, it would also be very difficult to predict future revolving fund outlays with such a variance of interest rates through out the nation. Finally, Mr. Chairman, it should be noted the "Housing Act of 1985," would provide for the repeal of FHA's negotiated interest rate policy, a policy which did nothing to reduce the lenders point requirement.

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you may have.

Statement of

The American Legion

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WASHINGTON, D. C. 20006

JOSEPH E. MILLER, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

before the

COMMITTEE ON VETERANS AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

on

FY 86 BUDGET PROPOSAL ON
THE VA HOME LOAN PROGRAM

MARCH 5, 1985

STATEMENT OF JOSEPH E. MILLER, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION
BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
MARCH 5, 1985

Mr. Chairman and members of the subcommittee, The American Legion is pleased to appear before you to express our views on the Veterans Administration Home Loan Guaranty Program. Specifically, we shall address our remarks to proposals in the fiscal year 1986 budget to increase the home loan user fee from 1 percent to 5 percent and to remove the VA Administrator's authority to establish the maximum interest rate on VA guaranteed and direct loans.

With regard to the proposed increase in the user fee, the Legion is adamantly opposed. In our judgement, the imposition of a 5 percent user fee would constitute a serious impediment to veterans desiring to use the program. That view has already been supported by the VA's loan guaranty service which stated at the February 20 hearing of the full committee that a 50 percent decline in use of the program could be expected.

Another source of concern about this proposal stems from successive similar actions previously. Veterans over the last four years have been more than willing to contribute in efforts to bring the federal budget under control. In that regard, it was only with great reluctance that the Legion acceded first to the ½ percent user fee and the later increase to a 1 percent user fee. To ask now that veterans go along with an increase to 5 percent is to tax the cooperative spirit of the veterans community.

Initially, the user fee was seen to have been necessary to bring savings in the VA budget up to a level equal to what many thought to be part of the veterans fair share. The later increase was seen as needed to put the Loan Guaranty Revolving Fund (LGRF) back on independent financial footing.

While the LGRF can still be said to be dependent on appropriations rather than fully self sufficient, the reason for this is the increase in the number of foreclosures on VA backed mortgages over the last few years. The causes for this increase in foreclosure rates deserve some scrutiny. The first and most obvious reason is the sustained high rates of interest on VA backed mortgages which have been difficult for many veterans to continue to afford. Another clear reason is the deep recession of just a few years ago. Economic reversals for many veterans then set in motion a chain of events in which time consuming foreclosure proceedings were begun. Variations in the length of time for completion of foreclosures from beginning to end have permitted sustained high rates of foreclosure.

Apart from the reasons for high rates of foreclosure, the fact remains that the LGRF has been unable to meet its obligations without direct appropriations. For some this may constitute reason enough for an increase in the user fee. We disagree noting that if 50 percent fewer veterans use the program because of the user fee increase, the added revenue resulting - even if all of it is deposited in the revolving fund - will almost certainly be inadequate to accomplish the goal of LGRF self sufficiency.

Assuming that an increased user fee will fail to solve the problem of LGRF solvency, it must be rejected as a short sighted proposal; one that might place the revolving fund in even greater jeopardy threatening the overall viability of the program. After having discussed the presumed reasons for high foreclosure rates in recent years as well as the dim prospects an increased user fee holds for solving the problem, it seems worthwhile to address at least one of the reasons for LGRF instability.

In 1983 a change was made in the overall home loan program which required VA to sell its loan portfolio. Though short term savings were projected, this move was highly disruptive of LGRF stability. Without the portfolio of VA loans, VA was unable to borrow on its assets and found itself forced to seek appropriations for the LGRF as foreclosure rates rose. At the time,it was projected that sale of the portfolio would generate $968 million in savings which would go to the Treasury as miscellaneous offsetting receipts. In actuality, the sale in 1983 of the portfolio of loans netted the Treasury only $683.9 million. Continued sales in 1984 of the remainder of the loan portfolio netted the Treasury $853.7 million. On balance, the 1983 and 1984 sales of VA loans permitted savings for the Treasury amounting to $1.5 billion. Given the size of this figure, it seems clear to us that sufficient assets could have been generated to cover shortfalls created by high foreclosure rates if the VA had been permitted to maintain and properly manage its portfolio.

Mr. Chairman, before moving on to the issue of maintaining the VA Administrator's authority to set the maximum rate of interest on VA backed loans, there is one more compelling reason to reject the proposed user fee increase. On March 6, 1985 the full House Committee on Veterans Affairs is scheduled to mark up its report of recommendations to the House Budget Committee. In our judgement, it would be premature to make any recommendations approving another user fee increase before this subcommittee has had an opportunity to conduct its scheduled April 18, 1985 oversight hearing on the home loan program.

With regard to the proposal to revoke the Administrator's authority to set interest rates below the general market rate, The American Legion stands in opposition. To effect a change of this nature will surely mean higher interest rates for veterans. As noted above, high interest rates are already contributing to increased foreclosure rates. Still higher interest rates can be expected to exacerbate this problem.

Also as noted above, solvency of the LGRF is critical to the survival of the program. Assuming, as the VA loan guaranty service has, that a 5 percent user fee will reduce veteran participation in the home loan program by 50 percent, we have to believe that any proposal allowing increased interest rates on VA backed mortgages will reduce veteran participation even further.

We recognize that proponents of this change argue that veterans would be permitted to negotiate interest rates with lenders independent of any constriction resulting from a VA established rate. We also note arguments that point to

competition in the lending industry as the best assurance that veterans can find the lowest possible mortgage interest rate. It is further argued that unless veterans are permitted to negotiate their own mortgage contracts, many sellers who would otherwise be required to pay several points at the time of closing on the property will prefer dealing with FHA or conventional buyers.

The American Legion rejects these arguments noting that lenders are necessarily more qualified to negotiate interest rates advantageous to themselves than are veteran buyers. Moreover, what is needed are lower interest rates rather than higher ones.

In that regard, the Legion has already advanced one suggestion which might permit lower interest rates in exchange for increased VA guaranties for lenders. In an example of how this incentive mechanism might work for a first time veteran home buyer seeking a mortgage on a property, the lender could purchase an increase in the guaranty in 5 percent increments up to a maximum of 60 percent in exchange for each interest point below the VA established rate. In this example if $27,500 represented 40 percent of the mortgage, the lender could purchase an increase in the guaranty up to 60 percent by reducing the interest rate on the mortgage by 4 percentage points. Were the VA rate set at 12 percent, the purchase of an increased guaranty by the lender would permit a 30 year fixed rate mortgage for the veteran at 8 percent. Since the guaranty currently consists of the lesser of $27,500 or 60 percent, we suspect

that the lending industry might find the incentives to increase the guaranty in exchange for lower interest rates attractive.

Mr. Chairman, that concludes our statement.

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STATEMENT

OF

RICHARD F. WEIDMAN

DIRECTOR OF GOVERNMENT RELATIONS

VIETNAM VETERANS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 5, 1985

Mr. Chairman, Vietnam Veterans of America (VVA) appreciates the opportunity to share our views with you and this Committee in regard to the VA Home Loan Mortgage Guarantee program. Let me begin by stating unequivocally that Vietnam Veterans of America is fully committed to preservation of the VA Home Loan Mortgage Guarantee program and its basic intent which is to enable veterans of moderate means to purchase their first home. The program has fullfilled this basic intent of the Congress for almost forty years, and has been administered in a reasonable and effective manner. While there are some changes in emphasis and management VVA would like to see implemented, we have a great deal of confidence in Robert O'Toole and the people in the Loan Guarantee Division. Vietnam Veterans of America does not have similar confidence in David Stockman and his crew at the Office of Management and Budget nor in their numbers or proposals.

We urge you, Mr. Chairman, to defeat the effort on the part of the Office of Management and Budget to precipitiously raise the user fee from one point to five points. This would cost the veteran with an average loan of $63,000 a total of over $3,000 if the veteran could afford to pay up front. As you know, Mr. Chairman, over 60% of loans made are "no down payment" loans, simply because many veterans of modest means could not afford to purchase their first home if they had to come up with a large initial payment. Therefore, these same veterans will either be ruled out of the market, or will have to amortize this proposed excessive fee over the life of the loan which will cost this same average veteran in excess of $12,100. This, quite simply, is

antithetical to the original intent of the program, affirmed many times by the Congress, and by this Committee under your able leadership as recently as last year. It is our strongly held belief that the basic users fee, already higher now than it ever has been, should be held to 1% for first time home buyers.

Mr. Chairman, Vietnam Veterans of America would not have any objection to a higher fee for "restored usage" participants in the program. In FY'84, 10.6% of all loans guaranteed in the program, or 26,529 guarantees were "restored usage." Significantly, the average loan amount in this category was approximately $76,000, over $10,000 more than the average in any other category. It is VVA's belief that the reason for this is "trading up" of homes, using the equity aquired from earlier utilization of the guarantee program. There is nothing wrong with this, but VVA does feel that in this time of tremendous presure to hold down Federal expenditures that those who are using the program for the second time, having been enabled to amass equity by first time usage, could assist those who are attempting to realize the American dream of owning a first home by paying a larger user fee. Therefore, VVA proposes that the user fee for "restored usage" be raised to 5%. Once again, this would strenghten the overall program while preserving the heart of the program, which is enabling the veteran to purchase a first home. This is, in fact, a vital readjustment benefit for our Nation's younger veterans, and should be seen in that light. Over 75% of the participants in the program in FY'84 were Vietnam veterans, post-Vietnam veterans, or persons still serving on active duty who

are anticipating leaving the service soon. Without an affordable VA Home Loan Mortgage Guarantee program, most of these veterans could not take this important step toward full readjustment and assmilation into civilian society. If the user fee on "restored usage" were raised to 5% it would not only help those in need of greatest assistance in the tradition of veterans helping veterans, it would generate at least $47 million toward the revolving fund.

The central problem that we face in efforts to keep the VA Home Loan Mortgage Guarantee program's revolving fund solvent is that the rate of foreclosures is still too high. Vietnam Veterans of America believes that this is attributable to a number of factors, including the continued persistent effects of the 1982 recession/depression. Many areas of the country simply have not reversed the decline of their economic base since that time. The economics of such places as northeast Ohio, western Pennsylvania, northern Indiana, many areas of Michigsan, Houston, and the Los Angeles basin (to name but a few) are continuing to experience severe dislocations and alteration of the type of work that is available to veterans in those areas. Veterans who returned from the War to work in a steel or tire plant that no longer exists will not be able to command as great a salary in the work now available in those areas. It can be argued that the current experience in this regard is but one of the long range results of a GI Bill that was inadequate from 1966 until 1973/74. Hopefully, our younger veterans who are now in service will not face the same situation, thanks to the able leadership of Chairman Montgomery and this Committee in securing passage of H.R. 1400 during the

closing days of the 98th Congress. The point, Mr. Chairman, is that the foreclosure rate, and hence losses to the revolving fund, are still high because of other factors and policies both past and present. In conversations with VA Loan Guanenty people around the country, we hear a consistent story that they are encountering a "new" group of vetersans who are losing their homes. The two typical cases in the past were a) the spendthrift who had overextended and owed everyone in town; and, b) where the family had dissolved due to divorce or separation. The group that now makes up more than half of the group experiencing default/repossession are veterans with good credit histories, stable lives, but who have been laid off from work in a declining industry. Frankly, Mr. Chairman, this presents a situation which on the face of it argues for modification of other policies that are creatinag the context in which these very human tragedies are occuring. For example, President Reagan has not asked for extension of P.L. 98-77, nor for funding for this program to assist the very same veterans who are caught in great economic dislocations, through no fault of their own. To blame the veteran for the effects of economic policies of this Administration is analogous to blaming the warrior who served faithfully for whatever one may not have liked about the war. Vietnam Veterans of America has full trust and confidence, Mr. Chairman, that neither you nor any of your esteemed colleagues on this Committee will fall into this trap being set by the Administration.

We would be remiss, Mr. Chairman, if we did not reiterate that it is our belief that this proposed raise to 5% for first

time usage of the program is an unwarranted tax on veterans, and an effort by the President and his Office of Management and Budget to undermine and destroy a vitally needed veterans readjustment program. This half-baked scheme did not come from Administrator Walters or the VA Home Loan Mortgage Guaranty people, and they should not be blamed for this last in a series of unwarranted assaults on our nation's younger veterans.

In summary, Mr. Chairman, VVA urges you and your honored colleagues to retain the 1% user fee for first time usage, and to seek the $360 million in funding it will take to keep the revolving fund healthy in each of the next three years. At the same time, we urge the Committee as a whole to take a fresh look at employment and training initiatives that can and should be enacted and implemented to address the root causes that have led to the revolving fund being less than self sustaining.

While VVA is by no means convinced that the nation as a whole can "grow out of" the ever mounting deficit, we do believe, that with the strong leadership of the Committee on Veterans Affairs promoting new and extending previous wise employment and training programs, that veterans can grow out of the deficit of the revolving fund.

Thank you Mr. Chairman, for allowing Vietnam Veterans of America to present our views here today.

ATTACHMENT I

MARCH 5, 1985

LOANS GUARANTEED BY ENTITLEMENT

FY 1984

	NUMBER	%	5% FEE	1% FEE
WW II	9,126	3.7	28,746,900	5,749,380
KOREAN	6,126	2.7	21,312,900	4,262,580
POST-KOREAN	20,336	8.1	64,058,400	12,811,680
VIETNAM	109,873	43.7	346,099,950	69,219,990
POST-VIETNAM	27,243	10.8	85,815,450	17,163,090
IN SERVICE	50,607	20.1	159,412,050	31,882,410
WIDOWS	615	0.2	1,937,250	387,450
SPOUSE POW/MIA	14	0.005	44,100	8,820
PL 94-324	380	0.1	1,197,000	239,400
RESTORED ENTITLEMENT	26,529	10.6	83,566,350	16,713,270
(DROP)	(20,000)		(63,000,000)	
TOTAL	**251,489**	**100**	**792,190,350**	**158,438,070**

ATTACHMENT II

MARCH 5, 1985

AVERAGE LOAN BY ENTITLEMENT

FY 1984

	HOME LOANS*	MANUFACTURED HOMES
WW II	$57,537	$20,486
PL 94-324	$61,663	$22,822
KOREAN	$63,235	$23,592
POST KOREAN	$65,847	$23,813
VIETNAM	$63,097	$22,557
POST VIETNAM	$57,108	$19,701
SERVICE PERSONNEL	$65,957	$20,348
RESTORED ENTITLEMENT	$75,977	$24,441
WIDOWS	$54,851	$21,011
SPOUSE OF POW/MIA	$57,555	--
OVERALL AVERAGE	**$64,399**	$21,275

*Excludes Direct Loans Sold

TESTIMONY OF THE NAVAJO NATION

ON THE

VA FY 86 HOUSING BUDGET

BEFORE THE

HOUSING & MEMORIAL AFFAIRS SUBCOMMITTEE

MARCH 5, 1985

Mr. Chairman, the Navajo Nation is pleased to present our views on the FY '86 VA Housing Budget. Specifically, we would like to address the proposal by the administration to increase the VA home loan guarantee fee from 1 percent to 5 percent, an action which would virtually exclude participation in the VA loan guarantee program by Navajo Veterans.

For over 40 years American veterans have enjoyed the benefits of the VA home loan guarantee program. A program whose express purpose is to assist "qualified" veterans toward buying their first home. For the Navajo Veteran, however, the situation over the past 40 years has been totally different. Our veterans have faced limited access to the VA loan program due to the trust status of reservation lands and individual economic factors. Private lenders are wary of making loans to people on reservation lands for fear that they will be unable to collect if default occurs. Recognizing this problem, the tribe has begun discussions with both the VA and private lenders to overcome the lenders' fears. Our efforts are moving toward a positive resolution of this problem. Yet the administration's proposal to raise fees from 1 to 5 percent will cripple our

efforts to increase the access of Navajo Veterans to the VA home loan program.

Essentially, the fee increase would mean that borrowers would need higher incomes to qualify for the VA home loan program . Access for the lower and moderate income veterans would be made more difficult. Yet it is primarily the lower and moderate income veterans who need the assistance the VA loan program provides. Raising the fees and limiting the program to the higher income veteran undercuts the whole purpose of the program.

Furthermore, for Navajo Veterans the VA home loan program provides them with the opportunity for safe, decent, and sanitary housing. Housing programs such as FHA and HUD Indian housing will offer no real alternative to Navajo veterans since these programs have also been targeted for fee increases and reduced funds for construction, respectively.

Today, Navajo Veterans are moving closer to enjoying greater access to the benefits of the VA home loan guarantee program. This access represents not only assistance toward owning their first home, but owning a home that is safe, decent, and sanitary. The administration's proposal to raise fees would severely reduce the number of Navajo veterans able to successfully apply for a VA home loan and threatens to impede the progress the Tribe has made with private lenders. The Navajo Nation strongly urges this subcommittee to reject the administration's proposal for a fee increase from 1 percent to 5 percent.

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NATIONAL LEGISLATIVE DIRECTOR

February 28, 1985

The Honorable Richard Shelby
U. S. House of Representatives
Chairman, Subcommittee on Housing
and Memorial Affairs of the
House Veterans' Affairs Committee
335 Cannon House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

Because of other commitments, AMVETS will not be able to attend the Subcommittee hearing on 5 March 1985 on the Administration's Fiscal Year 1986 Budget proposals regarding the VA Home Loan Guaranty Program. We request, however, that this letter be included in the record of the proceedings.

The Administration has proposed an increase in FY 1986 in the VA home loan guaranty fund origination fee from 1 to 5 percent. They have also proposed increases in the FHA mortgage insurance program insurance premium from 3.8 to 5 percent; and in the GNMA guaranty fee from 6 basis points to 15. In addition, a new "user fee" will be imposed on FNMA's and FHLMC's capital market activities. For FY 1986 the fee will be 5 basis points annually for all newly issued debt, rollovers of existing debt and mortgage-backed securities (MBS). For FY 1987 and beyond the annual fee for MBS's will stay at 5 basis points, but the annual fee on debt will go to 8.3 basis points. Congress will have to enact legislation to authorize these user fees.

As we testified to the Full Committee on 21 February 1985, we are strongly opposed to the VA fee increase. In view of the proposed increases in other Guaranty Programs, the VA Program will become all the more important to our nation's veterans.

It is interesting to note that the Mortgage Bankers Association (MBA), which continues to be vitally concerned and involved with efforts to reduce the federal deficit and has urged not only that federal spending be curtailed but also that broad-based tax increases may be necessary to win the deficit battle, is opposed to the fee increases as are proposed by the Office of Management and Budget (OMB) as not needed for the FHA and GNMA programs, whose reserves are adequately maintained by the current fees. MBA maintains that these fees will constitute a very narrowly based tax on home ownership and that such subterfuge is not the way to ensure the maintenance of home ownership opportunities for American families. MBA supports AMVETS' position that the VA program is an entitlement program, which Congress did not set up to be user-fee supported, and that the proposed increased fee

will result in an approximately $2,000 additional cost to the veteran and that the no-downpayment feature of the VA loan will disappear. This could cause severe impairment of the program as a home ownership tool for the veteran.

Looking at the effect of the fee increases, one cannot help wondering whether the real intent of the fee-raising is not part of the acknowledged scheme of the OMB and Treasury to bring an end to these programs.

Sincerely,

DAVID J. PASSAMANECK
Lt. Col., USA, Ret.
National Legislative Director

DJP/aimc

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March 11, 1985

The Honorable Richard Shelby
Chairman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U.S. House of Representatives
335 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

We are pleased to submit this statement on behalf of the Coordinating Council on Manufactured Housing Finance (Coordinating Council) and the National Manufactured Housing Finance Association (NMHFA). Our comments concern the Subcommittee's March 5, 1985 hearing on the Administration's Fiscal Year 1986 budget proposal for the Veterans Administration's Home Loan Guaranty programs. We request that this statement be included as part of the Subcommittee's hearing record on this matter.

The Coordinating Council is an organization comprised of three major manufactured housing industry trade associations. These associations are the Manufactured Housing Institute (MHI), a national association representing approximately 80 corporations who manufacture homes and approximately 300 firms that supply components, services and financing to the industry; the Western Manufactured Housing Institute, representing manufacturers and suppliers in the western United States; and the National Manufactured Housing Federation, representing 44 state and regional associations of manufacturers, suppliers, retailers, and park operators.

The NMHFA is a national association of lenders who finance the purchase of manufactured homes primarily through the use of federal housing programs, such as the Veterans Administration's (VA) manufactured home loan guaranty program.

Veterans who purchase manufactured homes may participate in the VA guaranteed loan programs in one of two general ways. One, by acquiring a manufactured home with or without a lot under the Section 1819 VA manufactured home "personal property" program or "combination home and lot" program, or two, by acquiring a

manufactured home permanently affixed to a lot, as a single-family real estate transaction, under the regular VA single-family home loan program (Section 1810). The personal property manufactured home loan program has been the primary source of financing for veterans who purchase manufactured homes. The single-family program was just implemented by the VA this past January.

Summary

The Coordinating Council and the NMHFA oppose the proposals in the Administration's FY 1986 budget that would raise the guaranty fee on the VA guaranteed home loan and manufactured home loan programs. Also, although not directly within the jurisdiction of the Veterans Affairs Committee, we oppose the Administration's proposals which would add or increase fees in connection with the Government National Mortgage Association's (GNMA) mortgage-backed securities programs and the secondary market programs of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA).

We believe that the proposed fee increases are unnecessary and inequitable and reflect an intention radically to alter the fundamental purpose of these programs -- to provide housing credit for those who are not adequately served by the private credit market. The Administration's proposals are contrary to congressional intent and can only lead to the eventual destruction of those programs.

Veterans who purchase manufactured homes through the VA programs include those least able to afford conventional housing at conventional financing terms. Therefore, the fee increases proposed by the Administration will have a most severe and immediate impact on these users of the VA programs.

In contrast, the Coordinating Council and the NMHFA do support the proposal to deregulate the VA interest rate. We believe this proposal clearly to be in the best interests of veteran home buyers by allowing the interest rate to respond more naturally to market conditions.

VA Guaranty Fee

The Veterans Administration's (Section 1819) manufactured home loan guaranty program was created by enactment of the Veterans Housing Act of 1970. Under this program, an eligible veteran can obtain financing for a new or existing manufactured home, or a manufactured home and lot, with no down payment and with a maximum loan term of 20 to 25 years. According to most recent VA statistics, more than 92,338 loans for manufactured homes have been financed under this program.

Enactment of the Veterans' Compensation and Program Improvements Amendment of 1984 (Public Law 98-223) authorized the VA to guarantee, under its Section 1810 single-family program, loans secured by manufactured homes that are permanently situated on a lot and are considered to be real property in the state in which they are located. Final regulations implementing these provisions of Public Law 98-223 became effective on January 3, 1985.

With today's site-built housing prices beyond the reach of many potential home buyers, VA guaranty of manufactured home loans offers a valuable and attractive home ownership alternative to many veterans who might otherwise be limited to rental housing, substandard housing, or otherwise closed out of the home ownership market.

The Coordinating Council and the NMHFA are seriously concerned, however, that many elements of the Administration's proposed FY '86 budget may threaten the continued viability of the VA's manufactured housing programs. We are most disturbed by the Administration's plan to increase the VA guaranty fee to five percent, as we believe this would violate a long-standing congressional commitment to veterans. Additionally, it seems clear that the impact of the Administration's proposal ultimately would be the effective elimination of the VA home loan programs, particularly for those veterans most in need.

The proposed increase in the VA guaranty fee would add more than $863.40 in closing costs to the average VA guaranteed manufactured home loan of $17,268.00. This increase is in addition to those costs already charged to the veteran or added onto the price of the home. If the increased fee is amortized with the monthly loan payment (at 15 percent interest for 15 years), it could add as much as $12.08 to the $241.68 monthly loan payments. Over the life of the loan, with interest added, the increased guaranty fee could equal $2,174.00.

Further, the increased fees seem clearly not to be related to the cost of providing service or the administration of the program. Although the loan guaranty revolving fund did experience deficiencies in 1984, due to high levels of unemployment and resulting foreclosures, Congress addressed these deficiencies when it enacted Public Law 98-369 which provided for an increase in the guaranty fee from one half to one percent and earmarked the fee income for the loan guaranty revolving fund (rather than the U.S. Treasury general revenues). These provisions were designed not only to make the loan guaranty revolving fund once again solvent, but also indicated a strong level of congressional commitment to ensuring the continuation of the VA home loan programs.

The purpose of the VA loan guaranty, in part, is to eliminate the required down payment that must otherwise be paid when a veteran purchases a home. Lenders thus assured of the substantial protection afforded by the VA loan guaranty are generally willing to make loans to veterans without the need for the standard down payment or, in certain circumstances, no down payment at all.

However, to require a five percent user fee, in effect, establishes a down payment requirement without giving the veteran the benefit of building equity in the home. In addition, because the veteran manufactured home buyer may often be of moderate or lower-income, he or she may have very limited if any funds available for a down payment. Thus, without government assistance in the form of a VA-guaranteed no down payment loan, these home buyers would be quickly closed out of the housing market.

When Congress was considering an increase in the loan origination fee to one percent last year, the manufactured home industry did not voice strong opposition, believing it to be a "reasonable" compromise in the face of program losses and to cover the costs of administration of the program. Should the fee be increased again, the viability of the program would be severely weakened. Many manufactured home lenders, retailers and manufacturers currently in the program will simply have no choice but to withdraw. This result will yet further deny manufactured housing credit to those veterans in need of affordable financing.

Secondary Mortgage Market Agency User Fees

For similar reasons, the Coordinating Council and the NMHFA are strongly opposed to the implementation of user fees for participation in the government's secondary mortgage market programs, such as those of GNMA, FNMA and FHLMC. Increasing the up-front fees for these programs would increase the costs of financing to the lender, which ultimately must be borne by the veteran in the form of higher home loan fees and interest rates.

Manufactured home loans made under the VA's Section 1810 or the FHA's Section 203(b) single-family programs (manufactured homes that are permanently affixed to a foundation and are considered real estate under the laws of the state in which they are located) also are eligible for inclusion in GNMA's Mortgage-Backed Securities (MBS) program. These FHA and VA single-family real estate mortgage programs have only recently been initiated. An increase in the GNMA user fee could cripple these programs before they get off the ground.

Manufactured homes financed under the FHA's Title I or the VA's Section 1819 programs (typically, financed as personalty rather than real estate) are eligible for inclusion in GNMA's MBS program. In addition, FNMA and FHLMC will purchase conventional manufactured

home real estate loans, as well as manufactured home (real estate) loans that are insured under the VA Section 1810 or FHA Section 203(b) programs.

In order to help reduce the cost of financing and to maintain a source of funds for manufactured homes, it is critical that manufactured home lenders have affordable access to the secondary mortgage market. Increasing the up-front costs and adding user fees for participation in these secondary market programs would render them prohibitively expensive. The government sponsored secondary market agencies were established specifically to serve middle, moderate and lower-income home buyers. It is these veteran home buyers who can least afford to carry the extra cost that the Administration intends to burden through the imposition of higher fees.

Negotiated Interest Rates

Mr. Chairman, the NMHFA and the Coordinating Council support legislation to allow negotiated interest rates for VA guaranteed manufactured home loans. A deregulated (negotiated) interest rate would enable the lender to react more quickly to market conditions, thus making funds more readily available and reducing the number of discount points which often are passed on to the home buyer. Deregulated interest rates also would bring VA guaranteed manufactured home loans into the mainstream with FHA and conventional lending, allowing the marketplace to work more effectively and thereby making the VA program more competitive.

Conclusion

Mr. Chairman, in summary, the NMHFA and the Coordinating Council wish to express our strong opposition to any increase in the VA loan guaranty fee, as well as to the imposition of any new "user fees" in connection with the government sponsored housing credit and secondary market programs. We believe that such increased fees are unnecessary, inequitable and contrary to congressional intent. Moreover, such exorbitant fees surely would result in the eventual destruction of those very programs designed to serve veteran home buyers who otherwise would be foreclosed from the market. Veterans who seek the affordable alternative of manufactured housing are likely to be most vulnerable to these changes.

In contrast, however, Mr. Chairman, we believe that the proposal to deregulate the VA interest rate is a good one and would serve in the best interests of veteran home buyers.

On behalf of the Coordinating Council on Manufactured Housing Finance and the National Manufactured Housing Finance Association,

we appreciate this opportunity to comment on the Administration's FY '86 budget proposals as we believe they would affect the Veterans Administration's manufactured home loan guaranty programs. We would be pleased to answer any questions or to provide the Subcommittee with any further information.

Sincerely,

Witkowski, Weiner, McCaffrey
and Brodsky, P.C.,

Washington Counsel

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